

Paper 4 (second draft): Common features of service performance reporting frameworks found in practice

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 in due course [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 (which is in response to item 7.5 of the project plan dated 2 February 2010) 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 empirical research reported in Papers 1-2A as at 5 March 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 is 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.

- 8 A first draft of this paper was circulated on 19 February 2010 to both the AASB Project Advisory Panel and NZ FRSB PBE Working Group, for comment by 1 March 2010. A list of respondents is in Appendix 3 of this paper. Some Panel/Group members asked for extra time to prepare their comments. Although we have not been able to consider all the late submissions in writing this second draft of the paper or its appendices, appropriate comments are reflected in Appendix 2 and consideration will be given to them as the project proceeds. Some of the comments (particularly responses to the (a) type questions, which asked whether the Panel/Working Group knew of any other examples of service performance reporting in practice that had not been found in our research) related to examples of service performance reporting found in practice that we had not found in our research, have been incorporated into this second draft of Paper 4. Where the comments expressed a view including responses to questions that expressed a view, where appropriate, staff have incorporated them into Appendix 2 Appendix 2, reflecting some Panel/Group members' preliminary ideas for developing principles from practice, will provide an important link between this paper (being practice) and future papers on principles. We think Appendix 2 provides significant information about this project and includes a question seeking subcommittee views about aspects of it. Therefore subcommittee members are asked particularly to read it. The other appendices are more for background information and references as required and therefore do not need to be read in detail for the purpose of providing the input we are seeking from you at this stage.

Common features

- 9 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.
- 10 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, those public sector frameworks might 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 in regard to users will be developed as part of item 7.6 of the project plan. 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

- 11 The definition of service performance reporting, distinct from that of service performance, is discussed later in paragraph 29. 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 or some but not necessarily all aspects of service performance in their service performance report.

(i) Terminology

- 12 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.
- 13 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’ is 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 is used in the context of how an entity has provided both goods and services.

(ii) Definitions

- 14 Paragraph 15 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 27.
- 15 The following possible definitions are based on the explicit definitions disclosed in the explicit frameworks reviewed, combined with our judgement where there were variations [note we have not included any qualitative characteristics in these definitions – these are considered separately in paragraph 47-51 of this paper]:
- *goals*: what an entity is trying to accomplish through its *programs* in the long-term [may also be termed mission];
 - *objectives*: similar to *goals* but have a shorter term focus;

- *inputs*: resources used to create an *output*;
- *programs*: the activities an entity undertakes;
- *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, it also refers to 'best use'];
- *effectiveness*: the extent to which an entity achieved its *objectives* or *outcomes* through the delivery of its *outputs*;
- *key performance indicators* (KPIs): critical metrics that are used to provide an indication of an entity's *efficiency* or *effectiveness*.

16 As defined in paragraph 15 *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 15 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 to purchase 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. Furthermore the output of one department of an entity can be the input of another department within the entity. For example, the activities of the fundraising department could be seen as an output, which leads to the input of the delivery department. 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 and donations (whether cash or in-kind). Therefore, funding and grants are discussed under the heading inputs later in this paper, in paragraph 58, but this is not to preempt the conclusion of a future discussion as to whether they should be regarded as inputs when developing principles for service performance reporting.

17 In paragraph 15 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 16, 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.

- 18 In this paper, based on practice, we have defined outcomes as, ‘the impact, effects, or results of an entity’s outputs’. We note that some frameworks distinguish between outcomes and impacts. For example, the Productivity Commission’s Research Report (January 2010) *Contribution of the Not-for-Profit Sector* distinguishes impacts as those outcomes that effect the community. Furthermore, the definition does not specifically make reference to whom the impact is on. The various definitions we found 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 the project plan. Furthermore, we note that the outcomes that actually occur can often be different from the intended outcomes of the entity. For example, the intended outcome of a not-for-profit research program may be to find a cure for cancer, yet the actual outcome is a vaccination for the flu. Outcomes can also be a ‘knock-on’ impact that was or was not intended. Such matters will also be considered in the context of item 7.8 of the project plan.
- 19 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. that the students are better educated), with the external exam pass rates of its students being an indicator of that success; 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 substantiate as other factors such as increased home tuition may have also affected the pass rates.
- 20 We note 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)). Furthermore, in relation to timeframes, it is not always appropriate to measure services in annual timeframes, because some outputs/outcomes can take years.
- 21 KPIs, as defined in paragraph 15, are one way of providing 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. It is apparent from our research that KPIs are used as a mechanism for presenting information and the relationships between inputs, outputs and outcomes. 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).

It is apparent from practice that judgement is needed in determining the effectiveness or efficiency indicators/measures of an entity. The indicators typically provide an analysis to users, rather than merely disclosing the raw input/output/outcome data and leaving users to analyse the raw data themselves. Whether service performance reporting should include analysed information will be considered in paper 7.10 'Should service performance reporting include analysed information' of the project plan.

- 22 Paragraph 15 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'être' 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.

23 **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?
- (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

- 24 As implied in paragraph 10 above, 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, 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 29-37.
- 25 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.”

- 26 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.
- 27 Based on this and the terms and definitions in paragraph 15, 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. We have referred to the past, present and future in this definition, for consistency with the variety of definitions we found in practice. Whether service performance reporting should be so broadly defined (particularly in relation to the future) will be considered in the series of papers in relation to item 7.8 of the project plan.

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

- (a) Do you think that the definition of service performance identified in paragraph 27 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

- 29 Paragraph 27 above identifies what we imputed 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

- 30 Appendix A of this paper identifies the explicit objectives of service performance reports adopted in the explicit frameworks we reviewed. Along with the comments we received from Panel/Group members we deduced that 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;
- decision usefulness;
- to show the impact on society; and
- assisting an entity in the management of resources and performance of an entity.

31 Given the Boards’ focus on external reporting, the most pertinent objectives are the first two. Arguably the first objective identified in paragraph 30 is related to the second, as accountability information can help a user decide, for example, whether to allocate resources to the entity. Financial statements already provide users with decision-useful (and accountability) information with regards to financial performance and position, but do not focus on providing decision-useful (and accountability) information about non-financial performance or position.

32 In that regard, 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.

33 Despite our comments in paragraph 31 above, 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 historical versus future orientated 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.

34 **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*

- 35 Our research shows that what is regarded as constituting service performance reporting in practice is a broad spectrum. For example, the UK *Accounting and Reporting by Charities: Statement of Recommended Practice* (2005) states that the Trustee's annual report should include (paragraph 53):

“a review of its performance against objectives that have been set. The report is likely to provide both qualitative and quantitative information that helps explain achievement and performance. It will often be helpful to identify any indicators, milestones and benchmarks against which the achievement of objectives is assessed by the charity.”

Another example, also from the UK, is 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’.

- 36 In contrast some frameworks are narrower. For example, 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.

37 We found that the scope of service performance reporting is often informal, or not mandated (i.e. it is determined voluntarily). What specifically is included in service performance reports in practice is discussed in more detail in paragraph 53 onwards.

38 **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

39 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.

40 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 (or at least preparers think 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. (For example, funders often want to know exactly what their funding has been spent on, but conventional financial statements may show aggregate figures and not give the level of disaggregation required by those users). However, this is not a universally held view. Some argue that there is a direct link between service performance and financial performance, and that long term financial performance is a good measure of service performance. KPIs may have some use but profits not meeting expectations is of greater use.

41 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.

42 **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 performance reporting and that the link should be considered when developing service performance reporting principles?

(d) Users of service performance reports

43 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 identifies the 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 or service performance reports are.

44 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.

45 The research done by Kilcullen, Hancock and Izan (2008) *Identifying users of external financial information of private sector not-for-profit entities: perspectives from preparers and users* (Annual Conference Accounting and Financial Association of Australia and New Zealand, Sydney) shows that there are users of not-for-profit financial reports not explicitly identified in current frameworks and that there is a difference between users and who preparers think users are. Terms used to describe categories of users of service performance reports found in our research also include:

- beneficiaries;
- funders and financial supporters;
- grant providers;
- donors;
- taxpayers;
- elected or appointed representatives;
- governors (e.g. Ministers and local authority councillors);

- central agencies;
- other monitoring agencies;
- religious organisations;
- members;
- volunteers;
- citizens;
- community; and
- entities' management (including those charged with governance and those who are not).

Government funders often use their own different acquittal templates and expect the general purpose financial statements to provide the input for their templates.

46 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 44 and 45 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

- 47 Appendix D of this paper documents our research on the qualitative characteristics that explicit service performance reporting frameworks encompass.
- 48 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, 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.
- 49 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.

50 In summary, the following qualitative characteristics were mentioned in other explicit service performance reporting frameworks we found in our research, or by the Panel/Group:

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

51 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 103 below.

52 **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

53 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.

54 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. More detailed examples are provided in papers 2 and 2A. 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 53.

(i) Entity information

55 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 (including the benefits they are trying to give to beneficiaries/community);
- 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;
- governance arrangements;
- the purpose and scope of the entity’s service performance reporting; and
- the commitments and resources available to the entity.

56 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.

57 **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)*

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

- funding; and
- volunteer/employee information.

We found some frameworks also mentioned direct economic contribution (i.e. costs of outputs – see cost discussion in paragraphs 82-84 below), donations (including cash, assets and others), use of assets, knowledge, skills, relationships, corporate in-kind support and community support.

Funding

59 As indicated in paragraph 16 above, some argue strongly that funding is not an input, although, for the purpose of this paper, funding is discussed in the input section.

60 The details surrounding funding were often disclosure of the value of the funding and the provider. Some of the explicit frameworks required the cost of funding (i.e. fundraising costs), funding compared to budget (see comparison section in paragraph 91 below) and the funding process to be disclosed. An example of a funding disclosure is seen in the 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

- 61 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.
- 62 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 the program to which the grant relates to spans a number of periods or is 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

- 63 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.”

- 64 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.’

65 **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

- 66 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

- 67 We found a wide range of outputs disclosed in practice. 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 15. 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 Appendix C), 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.
- 68 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 79 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 91 below):

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

[Staff note: we have presented this example to provide an illustration of how one entity presents some of what it regards as its outputs. It is an extract from the Royal New Zealand Foundation for the Blind Summary Statement and hence does not show their complete service performance report and therefore the context for the disclosures illustrated.]

- 69 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 68), and financial information, for example disclosure of cost per output.

Grants

- 70 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

[Staff note: this example illustrates in isolation how one entity presents grant information. University of Canterbury's Service Report contains more detail, not shown here, and therefore provides some context for the disclosure.]

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

- (a) Are you aware of any other information about outputs that is disclosed in 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

- 72 Paragraph 15 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 Canada's 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 what was referred to as 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 91):

2. Key Student Outcomes

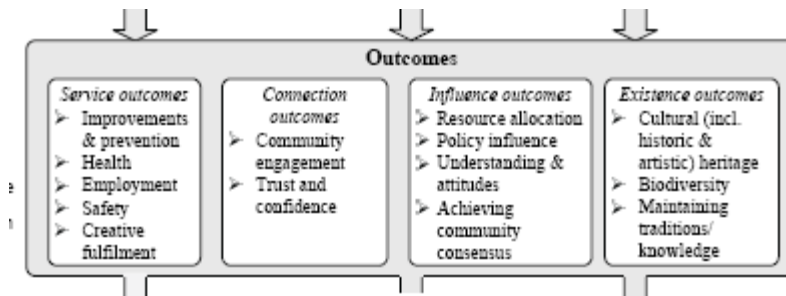
2.1 Student Attendance

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

- 73 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. For the purpose of this paper, and from what we have deduced from our research, 'control' is the main differentiating factor. We also found that some entities did not explicitly distinguish between outputs and outcomes in their service performance reports.
- 74 The Productivity Commission Research Report *Contribution of the Not-for-Profit Sector* (January 2010) refers to the following types of outcomes:



- 75 Some explicit frameworks we 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).
- 76 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.
- 77 Our findings reported in paragraph 68 above in relation to the measurement of outputs are also applicable to the measurement of outcomes.

78 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*

- 79 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 a discussion of our findings in relation to comparisons of KPIs, see paragraph 91 below.
- 80 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 them 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 programs;
 - productivity KPIs – these typically included the number of outputs, often disaggregated by program, and more detailed information around costing not provided by the financial statements;
 - satisfaction KPIs – reference to how satisfied customers or stakeholders were with the entity (which might be determined in practice using a customer satisfaction survey); and
 - quality KPIs – reference to the quality of the services provided.

When compared with the entity’s goals and/or objectives, these indicate how effective an entity has been in achieving its goals and/or objectives. We note that consideration will need to be given to how an entity’s goals and objectives are measured and how and if quantitative information can capture qualitative information. For example, does the number of calls to a lifeline really measure the value of lives saved from people not committing suicide. This will be considered as part of the series of papers of 7.8 of the project plan.

- 81 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. A checklist is also provided by the *Western Outcome Based Management Guidelines* for use in the Western Australian Public Sector November 2004, which we have included below. It is notable that our research did not find any entities disclosing an administration cost ratio.

Table 6 KEY PERFORMANCE INDICATOR CHECKLIST	
Characteristic	Check
Are the linkages between government goals, agency level desired outcomes and services clearly identifiable?	<input type="checkbox"/>
Does the KPI enable assessment of service delivery by key stakeholders, including government, Parliament and the Department of Treasury and Finance? For example: <ul style="list-style-type: none"> the effectiveness indicator should assist stakeholders to assess the extent to which desired outcomes are being achieved (any cost effectiveness indicator should enable comparison between the achievement of desired outcomes and the resources being contributed to achieve them); and the efficiency indicator should provide useful information to decision makers about the economical use of inputs. 	<input type="checkbox"/>
Does the KPI assist agency managers with strategic planning, resource allocation and identification of situations in which timely corrective action is warranted?	<input type="checkbox"/>
Does the KPI facilitate comparison with other service providers?	<input type="checkbox"/>
Does the KPI describe what is to be measured, e.g. the crime rate (as opposed to the desired direction of change in the crime rate)?	<input type="checkbox"/>
Can data be readily collected and reported against the indicator when required?	<input type="checkbox"/>
Have the KPIs been endorsed by the agency's executive?	<input type="checkbox"/>
Are the requirements of Treasurer's Instruction 904 and the <i>Financial Administration and Audit Act</i> sections 63 or 68 met?	<input type="checkbox"/>
Has the Outcome Structure Review Group endorsed the performance information changes?	<input type="checkbox"/>

82 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.'

83 Appendix H lists techniques found in our research for evaluating the contribution an entity makes on society. These techniques have mainly been drawn from the Productivity Commission Report '*Techniques of social evaluation*'. These models 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.

84 **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*

- 85 Costs were referred to in many service performance 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.
- 86 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 terms and methods that are not widely understood. For more detail see Appendix G of this paper.
- 87 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.

88 **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*

- 89 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 service;

- by location (geographically);
- by program/activity;
- by groups of society or characteristics of individual groups (i.e. job/sex/age);
- by contract or arrangement (these are often ‘audited’ by the contracting party);
- by department or structure of the entity;
- by fundraiser (event/type); and
- by timeframe.

90 **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

91 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/strategic plan;
- forward plans/prospective information
- location; and
- benchmarking to other entities/national benchmarks.

92 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

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

94 **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*

95 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;
- a report on the effects of any current market conditions;
- the results, including any issues from accreditation, registration, program evaluation and peer review; and
- the types of programs the entity had run during the year.

96 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.”

97 *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.

98 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’.

99 The report *Requirements for Annual Reports* (17 June 2009) published by the Australian 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 achieved, rather just report what the entity did achieve.

100 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

101 The future item 7.8 of this project, the principles of service performance reporting, will include consideration of whether to develop principles in relation to a statement of service position, i.e. an entity’s service position as at a specific date. Hence we researched whether explicit and implicit frameworks on service performance reporting require or contain disclosure of service position information. We found that there was reference to capacity potential and current commitments, as noted in paragraph 55 under the heading ‘Entity information’.

102 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’*

103 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, and in Western Australia the *Financial Administration and Audit Act* requires that KPIs be included in annual reports and that they be audited. 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.

104 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”.

105 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*

106 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.

- 107 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 27 above). 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 framework, 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.

108 **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?

109 **Question 20: relating to Appendix 2 of this paper**

- (a) Comments received from respondents on the first draft of paper 4 suggested a number of areas of further research. Some of these suggestions have not been incorporated into papers 2, 2A and 4. Please indicate the extent of further research staff should undertake for the purpose of further identifying practice (to be ultimately used as input to developing service performance reporting principles). [Staff note to sub-committee: we feel the research we have done to date is adequate and note that the potential for further research is practically endless. If you think further research is warranted, please identify what that research should be.]

Paper 4 Appendix 1 Questions included in Paper 4

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

Question 20: relating to Appendix 2

- (a) Comments received from respondents on the first draft of paper 4 suggested a number of areas of further research. Some of these suggestions have not been incorporated into papers 2, 2A and 4. Please indicate the extent of further research staff should undertake for the purpose of further identifying practice (to be ultimately used as input to developing service performance reporting principles). [Staff note to sub-committee: we feel the research we have done to date is adequate and note that the potential for further research is practically endless. If you think further research is warranted, please identify what that research should be.]

Paper 4 Appendix 2 Summary of comments on the first draft of Paper 4

[Staff note: not all Panel/Working Group members answered all of the questions explicitly. Some judgement has been used by AASB staff in interpreting the comments. Comments have also not necessarily been extracted word for word. If you would like a copy of the original text of responses, please email jlion@asb.gov.au. Where a comment is associated with a number, (e.g. [3]) this number corresponds to the Panel member number column in the Panel contact details listing in Appendix 3].

A first draft of Paper 4 was circulated on 19 February 2010 to both the AASB Project Advisory Panel and New Zealand FRSB PBE Working Group for comment by 1 March 2010. 20 members of the 67 Australian panel and 2 of the 13 New Zealand Working Group commented. A list of respondents is provided in Appendix 3. Some respondents asked for extra time to prepare their comments. Although some late submissions are not reflected in the following, regard will be had to them as the project proceeds.

Some of the comments (particularly responses to the (a) type questions, which asked whether the Panel/Working Group knew of any other examples of service performance reporting in practice that had not been found in our research) related to examples of service performance reporting found in practice that we had not found in our research, have been incorporated into the second draft of Paper 4.

Where the comments expressed a view (including responses to (b) type questions that asked whether the Panel/Working Group thought the results of our research might be appropriate to use as a basis for determining principles for service performance reporting), where appropriate, staff have incorporated them into this summary of comments, in the following sections:

- (a) overall comments;
- (b) detailed comments relating to specific questions; and
- (c) further research that could/should be undertaken.

Project staff have also provided a brief statistical analysis of the responses to the (b) type questions, underneath each question.

Because the purpose of paper 4 is to summarise service performance reporting in practice, not all the views expressed by respondents have been incorporated into the second draft of paper 4. Rather these comments and views will be reviewed and considered for incorporation into the series of papers relating to item 7.8 of the project plan 'principles of service performance reporting'. They are provided here to provide subcommittee members with some background information when considering their responses to the series of (b) type questions.

(a) Overall comments

The overall feedback was positive with broad support for the work we are doing on service performance reporting. Respondents were generally pleased with the volume of research and the documentation of it.

AASB's role

Although most were in agreement that this project is necessary, in contrast to the Board's decisions to date (see paragraph 2 of the body of Paper 4) some continue to raise the following concerns:

- is it appropriate for the AASB to be creating requirements in the non-financial information space?
- does the AASB have the authority to perform this type of work? and
- would another entity be better placed to do it?

Conceptual Framework

Some commented that this project should not be performed before the IASB reconsiders the Conceptual Framework and the scope of general purpose financial reporting. Comments also included that, if the project proceeds, the AASB should only issue principles-based guidance or best practice requirements. However, some felt that it would be difficult to have overarching principles for all types of private not-for-profit entities, and felt that any requirements would need to be stratified, or reduced for smaller entities. (This issue will be discussed in the context of item 7.11 'Should the same requirements apply to all types of PBE/NFP?' of the project plan and also as part of the AASB's differential reporting project [see item 10.1 of the project plan]).

Users

Another issue raised was who are service performance reports for and what do those users base their decisions on? The AASB should focus on identifying major users and their needs, especially as there are so many different groups with different needs, for example, government needs may differ from other user needs. (User needs will be considered in the context of item 7.6 of the project plan). Although the AASB has to date decided to limit consideration of service performance reporting to within the realm of an entity's major objectives (see paragraph 2 of the body of Paper 4), some felt that users would also want information beyond this, i.e. negative outcomes that were not intended, or social/environmental outcomes. It was noted that consideration of accountability versus decision usefulness will be key. *Financial versus non-financial information*

There is a direct relationship between service performance and financial performance, even to the extent that the longer term financial performance is a good measure of delivery performance and that KPIs are a nice to have until profits don't meet expectations.

KPIs

Some respondents had concerns about KPIs. Some stated that KPIs need careful consideration as they can be misleading and are very subjective, particularly to the extent they purport to measure efficiency and effectiveness. Concern was expressed that these indicators provide an analysis to users, rather than just disclosing the raw output/outcome data and leaving users to analyse the raw data themselves. Whether service performance reporting should include analysed information will be considered in the context of item 7.10 of the project plan 'Should service performance reporting include analysed information?'.

Measurement

Some raised the issue of how measurement criteria should apply to this type of reporting. Measurement of outputs/outcomes/KPIs and inputs (such as volunteers) is difficult and needs careful consideration. Consideration also needs to be given to when the items should be measured.

Benefits to entities of service performance reporting

It was raised that it is important not to do this work in isolation from private sector not-for-profit managers and workshops will be needed for them to really understand requirements in this area. One respondent raised the question as to whether the benefit to preparers of service performance reports had been measured, so as to get an understanding of any net cost/benefit of mandating service performance reporting requirements. Consideration should be given to the cost benefit of this project. Is this information really needed, are users currently making ‘bad’ decisions due to lack of info?

Definition of not-for-profit

The definition of a ‘not-for-profit’ entity was also raised by some respondents, stating that we should move to the international definition of a ‘not-for-profit’ entity. The unique nature of ‘not-for-profit’ entities was also raised, some feeling that the research had not focused enough on the uniqueness of these types of entities.

(b) Detailed comments relating to specific questions

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?

View on 1 (b)	Respondents	Total
Yes	36, 39, 46, 49, 53, 57, 64	7
No	7, 19	2
No comment	6, 18, 28, 30, 33, 37, 41, 42, 65, 72, 73	11

- the definitions should be in plain English, and outputs/outcomes may not be the best terms;
- the definition of ‘impacts’ (as per the Productivity Commission Research Paper) should be included;
- the example of input, output and outcomes in paragraph 20 provides an excellent example;
- the definition of ‘objectives’ should make reference to them being measurable;
- the list of definitions should include the definition of sustainability; and
- KPIs bias is towards quantitative measures of performance. Principles/definition of performance should be broader than just quantitative measures. The use of KPIs to

measure efficiency and effectiveness are very judgemental and KPIs are just analysing the 'raw data' of an entity's outputs/outcomes.

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?

View on 2(b)	Respondents	Total
Yes	7, 36, 39, 46, 49, 53, 57, 64	8
No		0
No comment	6, 18, 19, 28, 30, 33, 37, 41, 42, 65, 72, 73	12

- performance should not be based on future information, as implied by 'plans to be' in the definition of service performance reporting, as it is too hard to audit/be objective with future information.

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?

View on 3(b)	Respondents	Total
Yes	7, 39, 46, 57,	4
No	36, 49	2
No comment	6, 18, 19, 28, 30, 33, 37, 41, 42, 53, 64, 65, 72, 73	14

- 'meeting information needs not satisfied through conventional financial statements' in paragraph 29 captures the essence of service performance reporting;
- stakeholder accountability should be the main objective, but this may go against the sector neutral approach adopted by the AASB;
- all objectives are important, it is just matter of emphasis; and
- accountability and transparency are of great importance for funders.

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?

View on 4(b)	Respondents	Total
Yes	39, 46, 49, 53, 57	5
No	36	1
No comment	6, 18, 7, 19, 28, 30, 33, 37, 41, 42, 64, 65, 72, 73	14

- outcomes should not just be provided to put outputs in context, outcomes should be the key focus of service performance reporting;
- whole of government reporting should be considered (e.g. measurement against mandate) (see *Outcome Based Management Guidelines for use in the Western Australian Public Sector* (November 2004)); and
- consideration of timeframes is key as there are not only annual timeframes in service performance reporting – some programs (outputs/outcomes) may take many years. This includes long and short term outputs/outcomes/KPIs/inputs as well as how to report ongoing work. This is important as entities’ behaviours may change if reporting is focused on short term achievements.

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?

View on 5(b)	Respondents	Total
Yes	7, 19, 36, 39, 46, 49, 53, 57, 64	9
No		0
No comment	6, 18, 28, 30, 33, 37, 41, 42, 65, 72, 73	11

- it is tricky to define the link;
- disclosure of efficiency gives the greatest link;
- if there is no link the AASB should not have a role in this project; and
- if a link exists it should not be the primary focus of the project.

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?

View on 6(b)	Respondents	Total
Yes	7, 39, 46, 49, 53, 57	6
No	36, 64	2
No comment	6, 18, 19, 28, 30, 33, 37, 41, 42, 65, 72, 73	12

- the list of users should present Donors, Taxpayers and Funders separately as each of these users have different capacities for demanding the preparation of information, different foci and different requirements as far as detail goes;
- stakeholders are interested in the overall financial strength of an entity and the annual report that demonstrates the activities of the organisation. They tend to find anything else confusing; and
- considerable effort is gone to in reporting performance to funding agencies (both financial and more specifically non-finance). Success in delivering directly impacts future funding.

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?

View on 7(b)	Respondents	Total
Yes	7, 46, 49, 53, 57	5
No	36, 64	2
No comment	6, 18, 19, 28, 30, 33, 37, 39, 41, 42, 65, 72, 73	13

- trade off between these characteristics; and
- consider including examples of reporting that are strong in some characteristics but not others.

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?

View on 8(b)	Respondents	Total
Yes	7, 36, 39, 46, 49, 57, 64	7
No		0
No comment	6, 18, 19, 28, 30, 33, 37, 41, 42, 53, 65, 72, 73	13

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?

View on 9(b)	Respondents	Total
Yes	7, 19, 39, 46, 49, 53, 57, 64	8
No	36	1
No comment	6, 18, 28, 30, 33, 37, 41, 42, 65, 72, 73	11

- consideration should be given to splitting grant/donation information into contractual/refundable grants (i.e. a grant with conditions attached) and non-refundable grants (i.e. no conditions attached);
- the reporting of volunteers is a challenging issue. The service performance report needs to explain the basis and extent of volunteers. Consideration should also be given as to whether all volunteers should be disclosed. The report should explain their activities and inputs, and consideration needs to be given to providing guidance to help entities decide whether a volunteer is working for the entity or for the client/beneficiary;
- qualifications, professional affiliations and duration in current position of volunteers should be disclosed;
- in the definition of outcomes, some consideration should be given as to whom the impact is on;
- some professional members of the community are bound by their own Code of Conduct, and assuming certain volunteer roles brings with it additional

responsibilities that are borne solely by that individual. This can be a deterrent for volunteering;

- it would be useful to know which/what type of fundraising vehicle has been used (i.e. in house/third party). Inputs should be matched to the financial statements in either total or net. Input information is vital;
- must inputs be quantifiable?
- physical space should be disclosed; and
- funding should be split into activity generated and incidental.

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?

View on 10(b)	Respondents	Total
Yes	7, 19, 39, 46, 57	5
No	36, 49, 64	3
No comment	6, 18, 28, 30, 33, 37, 41, 42, 53, 65, 72, 73	12

- outputs should be shown on a segment basis;
- there is huge diversity in practice as to the outputs shown;
- outputs relate to services provided, participation rates in community activities, volunteer engagement, influence in research and creating community endowments;
- qualitative outputs are just as important as quantitative;
- outputs must be linked to objectives; and
- in many entities, the outputs of the fundraising department are seen as an input to the service department.

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?

View on 11(b)	Respondents	Total
Yes	7, 39, 53, 57	4
No	28, 36, 46, 49, 64	5
No comment	6, 18, 19, 30, 33, 37, 41, 42, 65, 72, 73	11

- this is a very complex area, as people have different ideas of what an outcome is;
- entities need to show key/most important outcomes;
- other impacts (in terms of ‘spill over’/unintended);
- qualitative outcomes are just as important as quantitative;
- outcomes must be linked to outputs;
- outcomes are most useful when entities provide an explanation of why each one was chosen and link them to their objectives/goals; and
- service performance reporting should also report ‘equity’ (which project staff interpret as the notion of fairness, or intergenerational equity, and understand that it is likely to be uniquely a public sector issue)

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?

View on 12(b)	Respondents	Total
Yes	36, 39, 46, 57, 64	5
No	6, 49	2
No comment	7, 18, 19, 28, 30, 33, 37, 41, 42, 53, 65, 72, 73	13

- be careful when considering satisfaction in service performance, including whose satisfaction. For example, a drug user may not be satisfied with the service if they can’t get free drugs;
- most KPIs are quantitative; qualitative information should be disclosed elsewhere;
- KPIs are just a mechanism of providing an analysis of the raw data to users, rather than just disclosing the raw output/outcome data and leaving users to analyse the raw data themselves;
- KPIs need to be linked to objective;
- there is a direct relationship between service performance and financial performance, even to the extent that the longer term financial performance is a good measure of delivery performance and that KPIs are a nice to have until profits don’t meet expectations and
- consideration needs to be given on how to audit them.

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?

View on 13(b)	Respondents	Total
Yes	39, 46, 49, 57	4
No	36	1
No comment	6, 7, 18, 19, 28, 30, 33, 37, 41, 42, 53, 64, 65, 72, 73	15

- explore the concept of 'administration' costs. Costs and administration costs should be defined and guidance given on when they should be reported. Administration (including admin cost ratio) and fund raising costs should be shown separately as they are different and audited. The cost of delivering the service is also a separate cost that should be shown. There is considerable public concern in this area and judgements are easily made on lack of information or misunderstanding of definitions;
- this is a good area for AASB to get involved as it is finance related;
- is this information not already covered in the financial statements?;
- there needs to be a standard chart of accounts; and
- cost is a key driver for a disclosure of efficiency.

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?

View on 14(b)	Respondents	Total
Yes	7, 36, 39, 46, 49, 53, 57, 64	8
No		0
No comment	6, 18, 19, 28, 30, 33, 37, 41, 42, 65, 72, 73	12

- disaggregation is driven by the need to provide different types of information to different government departments who have differing reporting requirements. Often this will relate to separate programs, but necessarily so;;
- AASB 8 *Operating Segments* approach, i.e. through the eyes of management is an appropriate approach; and
- an entity's objectives are central to this discussion.

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?

View on 15(b)	Respondents	Total
Yes	36, 39, 46, 49, 57, 64	6
No	7	1
No comment	6, 18, 19, 28, 30, 33, 37, 41, 42, 53, 65, 72, 73	13

- historic information is more useful than budget (as it is more reliable); and
- lots of Government agencies have useful information to benchmark to.

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?

View on 16(b)	Respondents	Total
Yes	7, 36, 39, 46, 49, 57, 64	7
No		0
No comment	6, 18, 19, 28, 30, 33, 37, 41, 42, 53, 65, 72, 73	13

- users of these types of accounts don't use financial information, they use outcomes and stories;
- case studies often provide more insight than quantitative information;
- the case study is a very powerful tool;
- to what extent can an entity fulfil an ill-defined responsibility to be transparent and accountable?;
- a report on outputs/outcomes needs to be balanced by challenges;
- narrative should be balanced and report on positive and negative variances; and
- commentary needs to relate to the achievement of objectives rather than the discussion of activities.

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?

- this is a very interesting concept; and
- this is often left to the auditor and a going concern issue to address. The \$ size is critical. Entities should show reserves split into specific purpose reserves (contractual) and designated reserves (management have choice over designation). These should be cross referenced to the relevant assets, to show whether these are all tied up in PPE or not;
- unfulfilled demand should be disclosed; and
- disclosing vulnerable funding position may precipitate an entity's failure. There are huge issues around resource dependency.

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?

View on 18(b)	Respondents	Total
Yes	7, 19, 33, 39, 46, 49, 53, 57	8
No	30, 36, 37	3
No comment	6, 18, 28, 41, 42, 64, 65, 72, 73	9

- this must be done to ensure entities are accountable;
- this should be incorporated into the ISO framework, rather than burden entities with another audit. Cost of audit could be a problem;
- maybe not all entities need be audited;
- this is a good objective to consider, but the audit of service performance reports should not be mandated by the AASB. It should be Government or a regulator; and
- need a robust underlying system.

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?

View on 19(b)	Respondents	Total
Yes	46, 49, 53, 57, 64	5
No	30, 33, 39	3
No comment	6, 18, 7, 19, 28, 36, 37, 41, 42, 65, 72, 73	12

- consider further links to financial statements and changes to auditing standards; and

- unlikely to be able to capture all other information.

(c) further research that could/ should be undertaken

The comments received from respondents proposed the following areas of further research, frameworks and service performance reports. Some have not been incorporated into the project working papers. Sub-committee members are asked to indicate the extent of further research staff should undertake for the purpose of further identifying practice (and ultimately used as input to developing service performance reporting principles). We feel the research we have done to date is sufficient and note that the potential for further research in practically endless. If you think further research is warranted, please identify what that research should be.

Research

- *Accounting And Reporting By Charities*- Statement of Recommended Practice (SORP) (revised 2005) issued by the Charity Commission for England and Wales;
- *Australia to 2050: The 2010 intergenerational report* –Australian Government report assessing the financial implications of continuing current policies and trends over the next four decades;
- *Contribution of the Not-for-Profit Sector*- Commissioned study of the Australian Not-for-Profit sector published February 2010 by the Productivity Commission;
- *Corporate Law Reform Bill* – 1992 amendments to the Corporations Law of Australia;
- *Guide to donating to charities* – Choice report examining Australian not-for-profit sector published in April 2008;
- *Henry Review*- Review examining Australia's tax and transfer system by the Australian Future Tax System Review Panel, established by the Rudd Government in 2008;
- *How to Compile Effective Government Grant Submissions* – Presentation made on the 3/09/2009 by Stuart Cameron at the CPA Australia Not-for-Profit conference;
- *Disclosure regimes for charities and no-for-profit organisations* – Report prepared by the Australian Standing Committee on Economics in December 2008;
- *Identifying Users Of External Financial Information Of Private Sector Not For Profit Entities: Perspectives From Preparers And Users* – Article written by L. Kilcullen, P. Hancock and H. Izan considering the International Not-for-Profit Sector published in 2008;
- *Measuring the Outcomes of Community Organisations* - Australian Research Alliance for Children and Youth commissioned report, prepared by KPMG, examining the contribution of community organisations published in 2009;
- *Study of the Contribution of the Not-for-Profit Sector* – Private submission by Ted Flack in 2009 to the Productivity Commission in relation to their commissioned study of the not-for-profit sector;
- *Study of the Non-Profit Sector* - qualitative and quantitative data on the voluntary sector collated by Johns Hopkins University in 2005;

- *The Mandatory Disclosure of Cost of Fundraising Ratios: Does it Achieve the Regulators' Purposes?* – Article examining the not-for-profit sector published in 2009 by T. Flack.
- *The Role of Annual Reports in a System of Accountability for Public Fundraising Charities* – Unpublished doctoral thesis (2007) written by T. Flack;
- *Useful Information in the External Financial Reports of Private Sector NFP entities – A User Perspective* – 2010 working paper written by L. Kilcullen, P. Hancock and H. Izan considering the Australian Not-for-Profit sector;
- *User Requirements for Not-For-Profit Entity Financial Reporting: An International Comparison* – 2007 article written by L. Kilcullen, P. Hancock and H. Izan considering the Australian and International Not-for-Profit private sector; and
- *Volunteers, valuable but invisible to accountants?* – New Zealand article examining not for profit accounting by C. Cordery and G. Narraway, published in 2009.

Frameworks

- *A Guide to Social Return on Investment* – Not-for-profit sector guide published by the Cabinet Office, Office of the Third Sector, UK in 2009.
- *Australasian Reporting Awards* – Criteria for assessment of the quality of Australian annual reports;
- *ACCA Hong Kong Awards* – Criteria for assessment of the quality of Hong Kongian annual reports;
- *Discussion Document: The Statutory Framework for Financial Reporting* – New Zealand Ministry of Economic Development document addressing the problems with the statutory framework for financial reporting published in 2009;
- *Enhancing not-for-profit annual and financial reporting* – Framework for the Australian not-for-profit sector published in February 2007 by the Institute of Chartered Accountants;
- *Outcome Based Management* – Guidelines for use in the Western Australian Public Sector (November 2004) by the Department of Treasury and Finance (WA);
- *Public Finance and Accountability Bill* - Comprehensive, principles-based legislative framework (2009) by the Victorian Government and the Department of Treasury and Finance; and
- *Sarbanes – Oxley Act*- United States federal law enacted on 30 July 2002.

Service Reports

- Epilepsy Action Australia 53rd *Annual Report* 2005; and
- *Report on Government Services 2009* published by the Steering Committee for the Review of Government Service Provision (Australia).

Question 20: relating to Appendix 2

- (a) Comments received from respondents on the first draft of paper 4 suggested a number of areas of further research, which are listed above. Some of these suggestions have not been incorporated into papers 2, 2A and 4. Please

indicate the extent of further research staff should undertake for the purpose of further identifying practice (to be ultimately used as input to developing service performance reporting principles). [Staff note to sub-committee: we feel the research we have done to date is adequate and note that the potential for further research is practically endless. If you think further research is warranted, please identify what that research should be.]

Paper 4 Appendix 3 Respondents to Paper 4

Australian Project Advisory Panel

Name	Date of response to first draft of paper 4	Reference number for panel member as referred to in Paper 4
Alicia Toohey		1
Allan North		2
Amar Nathwani		3
Andrew Mitchell		4
Angela Gregory		5
Anthony T. Baker	27/02/2010	6
Ben Coull	01/03/2010	7
Chris O'Neill		8
Christopher Shelly		9
Darryn Rundell		10
David Gibbs		11
David Greenall		12
David Solomon		13
David Thompson		14
Denis Tamplin	03/03/2010*	15
Dione O'Donnell		16
Don Smith		17
Dr Mark Shying	01/03/2010	18
Dr Ted Flack	04/03/2010 28/02/2010 28/02/2010 27/02/2010	19
Francine Bell		20
Geoff Turner		21
Gina Anderson		22
Graeme Macmillan		23
Graeme Rodda		24
Grant David Allsopp		25
Greg Wilkinson		26
Ian Southwood		27
Janine Muir	28/02/2010	28
Jason Wilk		29
Jean Maree Stone	28/02/2010	30
Jenni Allan		31
Joe Costanzo		32
John Church	28/02/2010	33
Justine Felton		34
Kathy Ostin		35
Ken Crofts	01/03/2010 01/03/2010 01/03/2010 01/03/2010	36
Kerry Hicks		37
Kevin Gray		38
Kimberly Smith	03/03/2010	39
Les Pascoe		40
Lydia Kilcullen	02/03/2010	41
Lyn Grigg	02/03/2010	42
Martin Power		43

Name	Date of response to first draft of paper 4	Reference number for panel member as referred to in Paper 4
Mary Anne Stephens		44
Michael Sadhu		45
Mike Blake	02/03/2010 23/02/2010	46
Nicholas Andrew Calder		47
Peter Lucas		48
Prof. David Gilchrist	01/03/2010	49
Prof. Myles McGregor-Lowndes		50
Professor Chris Ryan		51
Ric West		52
Richard Nearn	04/03/2010 24/02/2010	53
Rob Mackay		54
Robert Forbes		55
Rod Wallbridge		56
Sally Highducheck	01/03/2010	57
Sam Naidu		58
Steven Bradby		59
Stewart Douglas		60
Tom Ravlic	04/03/2010*	61
Tracy Chee		62
Victor Borg		63
Vittoria Borazio	04/03/2010	64
Warick Angelini	04/03/2010 02/03/2010	65
Wayne Basford		66
William H Hardman		67

*Arranged extended deadline

New Zealand Working Group

Name	Date of response to February 2010 mailout	Reference number for panel member as referred to in Paper 4
Aaron Crookston		68
Angela Ryan		69
Alex Skinner		70
Bill Robertson		71
David Foster	03/03/2010	72
Frank Claridge	24/02/2010	73
Helen Rogers		74
Ken Warren		75
Louise Lennard		76
Lynley Hutton		77
Margaret Carter		78
Michele Embling		79
Nadia McCartin		80

Paper 4 Appendices A-H

Other Appendices

Appendices A-H, as listed below, are available in a separate document and will be accessible on the AASB website (see link below).

<http://www.aasb.gov.au/Work-In-Progress/Projects/Disclosures-by-Private-Sector-NFP-Entities-Project.aspx?preview=true>

- Appendix A – Service Performance Reporting Objectives
- Appendix B – The Relationship of Service Performance Reporting to Financial Statements
- Appendix C – Definition of Service Performance
- Appendix D – Qualitative Characteristics of Service Performance Reports
- Appendix E – Types of Information Included in Service Performance Reports
- Appendix F – Users and User Needs
- Appendix G – Costing Models
- Appendix H – Approaches to the Measurement of NFP Activities identified by the Productivity Commission