

# The Institute of Public Accountants



**IPA** INSTITUTE OF PUBLIC  
ACCOUNTANTS<sup>®</sup>

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Ms Kris Peach  
Chairperson  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007  
Australia

Online submission via [aasb.gov.au](http://aasb.gov.au)

Dear Kris

### **Exposure Draft ED 270 *Reporting Service Performance Information***

#### **Introduction**

The Institute of Public Accountants (IPA) welcomes the opportunity to comment on ED 270 'Reporting Service Performance Information', the [draft] Standard. We strongly support the broad principles of the [draft] standard and believe the proposals support accountability, transparency and that it is useful for decision-making purposes.

Notwithstanding the significant contribution both the public sector and private Not-For-Profit (NFP) entities make to communities and the environment, they also make a significant contribution to the Australian economy. It is our view that Reporting Service Performance Information is required to enhance public trust as financial statements alone do not tell the user whether the key objectives of the entity have been successfully achieved.

#### **Responses to the specific questions raised in the [draft] Standard, ED 270 *Reporting Service Performance Information***

1. *Paragraph 20 proposes the principles for reporting service performance information. These principles state that an entity reports service performance information that:*
  - (a) is useful for accountability and decision-making purposes;*
  - (b) shall be appropriate to the entity's service performance objectives;*
  - (c) clearly shows the extent to which an entity has achieved its service performance objectives; and*
  - (d) should enable users to assess the efficiency and effectiveness of the entity's service performance.*

*Do you agree with these principles? Why or why not?*

We broadly support the key principles as proposed above for Reporting Service Performance Information and provide our reasons below.

Reporting Service Performance Information is an important tool for NFP entities to enhance accountability and public trust. Reporting Service Performance Information may not be able to fulfil all key stakeholders information needs, however, a focus on reporting key objectives

and performance and communicating those results in a timely and effective manner is useful for accountability and decision-making purposes.

Information about an entity's service performance objectives provides a clear picture of the entity's core focus areas. Clearly identified performance objectives which may be expressed as both measurable quantitative and narrative descriptions provides the user with the necessary information to understand an entity's purpose and its related impact(s) or outcome(s).

There are various ways an entity may choose to demonstrate the extent to which it has achieved its performance objectives. This may incorporate for example an evaluation by each programme and identifying relevant key performance indicators for each programme or it may choose a broader performance indicator. Reporting on the extent requires the entity to self-assess the optimal level of openness. Other key considerations include materiality, consistency, transparency and relevance. Lastly, an entity needs to identify who key stakeholders are and understand what information is useful which may vary significantly between entities.

We agree that Reporting Service Performance Information should enable users to assess the efficiency and effectiveness of the entity's service performance. There are a variety of ways that users may access service performance information through social media as well as accessing detailed reports via an entity's website, where the annual report or financial statements would serve as the initial overall report. If the core principles of the [draft] Standard are adopted by the entity, whether the information is reported via social media or other detailed reports should be acceptable.

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

*Do you agree that it is appropriate that the [draft] Standard apply to NFP entities in both the private and public sectors? Why or why not?*

We agree the [draft] Standard should apply to NFP entities in both the private and public sectors.

Where reporting information is not mandatory and is dependent on the relative openness and effectiveness of each entity, information is inconsistent and impacts on its usefulness to the user.

Private NFP entities vary in size, their mission and performance activities and donations can form a significant part of the revenue stream for charities. Where information between the NFP entity and the donor is voluntary, it is difficult for the donor to understand how effective the organisation is in contributing and making an impact. Notwithstanding our society relies heavily on charities in many areas, donors to charities should have access to

information about the performance of the entity including their impact (in achieving their goals).

The same should apply to public sector NFP entities.

3. *The AASB discussed whether this [draft] Standard could be applied by for-profit entities at a future date. The Board noted that the principle objectives of NFP entities and for-profit entities are different and, therefore, user needs are potentially different. However, the Board is of the view that users of for-profit reporting may also benefit from for-profit entities reporting service performance information.*

*Do you agree that the application of this [draft] Standard could be extended in the future to include for-profit entities? Why or why not?*

No, we do not agree that this [draft] Standard could be applied by for-profit entities at a future date. There are other frameworks that take precedent, for example the Integrated Reporting framework.

4. *The AASB discussed whether the requirements of this [draft] Standard should apply to entities that prepare consolidated financial statements including whole-of-government (WoG) and the general government sector (GGS) financial statements. The Board decided that if the [draft] Standard did not apply to entities preparing consolidated financial statements, some important information might not be reported, particularly if a controlled entity was not required to apply this [draft] Standard. Further, it was noted that some governments prepare a strategic plan for the WoG (not just individual agencies). Therefore, this [draft] Standard could be applied in relation to those WoG plans.*

*Do you agree that this [draft] Standard should apply to all NFP entities that prepare consolidated general purpose financial statements (including WoG and GGS financial statements)? Why or why not?*

We make no specific comments.

5. *This [draft] Standard proposes that the reporting entity for which service performance information is reported shall be the same as that used for the entity's financial statements. Do you agree with this proposal? Why or why not?*

Yes we agree with the proposal.

6. *This [draft] Standard allows an entity to present its service performance information in:*  
*(a) the same report as the financial statements;*  
*(b) a separately issued report; or*  
*(c) in a variety of different reports.*

*Do you agree that this [draft] Standard should not specify the location of service performance information? Why or why not? If you disagree with the approach proposed in this [draft] Standard how do you consider entities should present service performance information and why?*

We agree that the [draft] Standard allows an entity to present its service performance information in either the same report as the financial statements; a separately issued report; or in a variety of different reports. Depending on the NFP entity key stakeholders and importance of timeliness of information, information may be presented in a variety of separate reports accessible by the user.

However, we also acknowledge that some information may be reported via an entity's website and through social media, not necessarily as part of a formalised report and this should be acceptable.

7. *This [draft] Standard allows for an entity's service performance information to be reported for a different time period to that of the entity's financial statements. Do you agree with this proposal? Why or why not?*

Yes, we agree with the proposal.

8. *The [draft] Standard includes defined terms in Appendix A. Do you agree that the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard? Why or why not?  
Do you agree with these defined terms? Why or why not?  
Are there additional terms that should be defined in Appendix A to assist application of the [draft] Standard?*

Yes, we agree the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard, however, we think the AASB should consider including consistency and relevance (meeting stakeholder needs) as part of both the [draft] Standard and Appendix A.

9. *The AASB's view is that this [draft] Standard should be mandatory as it, in conjunction with an entity's financial statements, provides useful information for users to assess the performance of NFPs in relation to an entity's service performance objectives. Providing this information will further assist users for accountability and decision-making purposes. Do you agree that this [draft] Standard should be mandatory for NFP entities? Why or why not?*

We agree that the [draft] Standard should be mandatory as it promotes transparency and consistency amongst NFP entities.

There is no mandatory framework that applies to **all** NFP entities creating a variety of formats and content highlighting the need for a harmonised reporting framework that allows key stakeholders to easily analyse entities on both financial and non-financial information and understand its core objectives.

Section 300B of the Corporations Act, applicable to companies limited by guarantee only, requires these entities to disclosures relating to objectives, strategy for achieving those objectives and how activities assisted in achieving the entity's objectives. The framework lacks core principles and information to enable users to assess an entity's performance directly in relation to its objectives.

10. *It is proposed that this [draft] Standard will be applicable for annual reporting periods beginning on or after 1 July 2018. Early application will be permitted.  
Do you agree with the proposed application date of 1 July 2018? Why or why not?*

The adoption period for the [draft] Standard should be extended to allow sufficient time for implementation.

#### General Matters for Comment

The AASB would particularly value comments on the following:

11. *Whether:*
- (a) there are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAAP/GFS implications?*
  - (b) overall, the proposals would result in reporting that would be useful to users?*
  - (c) the proposals are in the best interests of the Australian economy?*

We have no comments in respect of public sector entities.

12. *Unless already provided in response to the matters for comment 1-10 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.*

The only comments we make in this area are:

- Many NFP reporting entities are already reporting service information;
- The entities that are reporting service information provide a clear, concise and transparent summary of how the entity has performed (both positive and negative); and
- Given the increasing competitive nature of receiving donations and funding, it would seem best practice to report relevant service performance information to users.

In conclusion, we congratulate the AASB in developing these proposals and acting within its statutory mandate. The proposed standard will bring much improved service performance reporting accountability where there is none presently and bring uniformity where there are piecemeal requirements currently.

Both NFP entities and their stakeholders will significantly benefit as the result of the preparing and reporting of the information in the proposed standard.

The IPA strongly supports the proposals being issued in an accounting standard.

If you would like to discuss our comments, please contact me or our technical advisers Ms Sonya Sinclair ([sonya@ecorac.com.au](mailto:sonya@ecorac.com.au)) or Mr Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)) (a former member of the AASB), GAAP Consulting.

Yours sincerely



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#### **About the IPA**

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office, Australian Securities and Investments Commission and the Australian Prudential Regulation Authority on issues affecting members, the profession and in the public interest.