



Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 8007

6 May 2016

Dear Kris

Invitation to Comment on ED 270 Reporting Service Performance Information

Thank you for the opportunity to comment on the above Exposure Draft (ED).

We support the Board's efforts to develop a robust framework of transparent and consistent principles for not-for-profit entities to report information about their service performance. We expect the ED will result in more relevant information for users' decision making.

We support the Board's proposal to make disclosures of service performance information mandatory for not-for-profit reporting entities who prepare general purpose financial statements.

We acknowledge since the time of the Senate's request to the AASB, the Australian Charities and Not-For-Profits Commission (ACNC) has been set up. We recommend the AASB work with the ACNC to establish how the service performance report will be lodged, how its quality will be reviewed, and how its information will be disseminated in a way that meets the needs of users. We believe the guidance should aim to replace some of the reporting requirements of not-for-profit entities with information that is relevant to users and not just increase requirements.

Our comments on the specifics of the proposals are provided in Appendix A. I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 8350.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Regina Fikkers', written in a cursive style.

Regina Fikkers
Partner, PricewaterhouseCoopers

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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Appendix A – Detailed responses to ED 270

General comments on proposals

Reporting risks

In several instances, the ED requires entities to report risks:

- 66 [...] an entity that is accountable for the achievement of outcomes shall report [...] (d) other factors that have affected the entity’s ability to influence outcomes (eg. any risks that were identified when establishing the service performance objective).
- AG50 To enhance the usefulness of service performance information to users, an entity should provide sufficient information for users to understand the risks involved in achieving an entity’s service performance objective and the strategies used to mitigate those risks.

While we agree disclosure of risks is useful, we recommend the AASB provide additional guidance on the types of risks it intends entities to report. Examples would be helpful. Specifically, it may be unclear whether all risks an entity is exposed to through its operations should be reported, or only those risks that could adversely affect the achievement of an entity’s service performance objectives. In our view, the latter are the focus of service performance information so should also be the focus of risk disclosures. The standard should clarify that reported risks should be specific to an entity, rather than being a generic risks that might potentially affect a large number of entities.

Accountability for outcomes

The ED proposes that “an entity is accountable for the achievement of outcomes if (a) legislation, contractual or other agreements establish accountability for outcomes; or (b) it asserts that it is accountable for the achievement of outcomes.”

Interpreted broadly, this requirement may result in an entity analysing all assertions it has made to determine which outcomes it is accountable for. It may also result in an entity reporting information about all outcomes it has claimed accountability for, but which are not useful to users.

We believe the main objective of service performance reporting is to make not-for-profit entities accountable for their decision-making. However, disclosing all of the outcomes a preparer is accountable for would likely result in heavy disclosure with a loss of relevance. In cases where accountability is established by contract (eg. a government grant contract), an entity will be required to measure and report on outcomes under the contract. Such outcomes may not be relevant to users and consequently should not be mandatory.

We recommend the AASB require entities to consider whether the outcomes they have claimed accountability for are relevant to users before they include them in disclosures.

Basis for information aggregation/disaggregation

Paragraph AG49(c) requires “an explanation of the basis for information aggregation (or disaggregation), which addresses the level of detail reported”. The intention of this requirement is unclear, and we would recommend it be explained further, perhaps by an example.

Specific Matters for Comment

- 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?

PwC agrees these principles are appropriate and consistent with the purpose of service performance information. An entity may have numerous objectives, may use a broad range of resources to provide diverse outputs and achieve various outcomes. Entities may find it challenging to identify which elements of their service performance are specifically relevant to users. These overriding principles will ensure the elements of service performance information selected by entities to report about meet the information needs of the specific users of general purpose financial statements.

- 1. 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 it would be appropriate for the guidance to apply to entities in the private sector that prepare general purpose financial statements.

We note that many public entities already prepare annual performance statements. Such entities may already be providing the service performance information which is mandated by the draft standard. However, in our view applying the ED will likely lead to greater consistency of reporting by such entities.

In instances where there is a conflict between the requirements of the ED and the existing reporting framework or legislation, the AASB should work with regulators to ensure it is clear which guidance

would take precedence. In doing so the AASB should consider the differences in the requirements to determine which requirement provides more relevant information to users.

The requirements under the [draft] Standard could be perceived as onerous on public sector preparers who already have significant disclosure requirements through both existing reporting frameworks and legislation. The AASB should consider how these new disclosure requirements could replace other existing disclosure requirements to produce more relevant information for users of the report.

- 1. 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?

We note that there are a number of existing qualitative reporting requirements that already apply to for-profit entities, including:

- the Review of Operations required by *Corporations Act 2001* (CA) s299(1)(a);
- additional detailed information for listed entities required by CA s299A; and
- the review of operations and activities required by ASX Listing Rule 4.10.17.

Additional guidance on the content of a for-profit entity's review of operations is provided for for-profit entities in:

- ASIC's Regulatory Guide 247 *Effective disclosure in an operating and financial review*;
- the Group of 100 *Incorporated Guide to the Review of Operations and Financial Condition*;
- the IFRS Practice Statement Management Commentary; and
- the principles of integrated reporting been codified by the International Integrated Reporting Council (IIRC).

Before undertaking a project to develop service performance reporting principles for for-profit entities, we recommend the AASB examine whether users of for-profit entities' financial statements require extra information (i.e. that isn't already supplied in accordance with other guidance) for accountability and decision-making. If critical information needs are not currently being met, we would encourage the AASB to work with regulators such as the ASX or ASIC to determine if a new performance report is needed. This will ensure reporting entities are not overwhelmed by diverse and potentially conflicting reporting requirements from different sources.

- 1. 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?

The [draft] Standard should apply to all not-for-profit entities that prepare consolidated general purpose financial statements. The WoG financial statements will include numerous service performance objectives, use a broad range of resources to provide diverse outputs and achieve various outcomes. Therefore, there will likely be challenges in identifying which elements of service performance are specifically relevant to users of WoG financial statements. We recommend further guidance be provided on (i) the level of aggregation/disaggregation of the information provided and (ii) how entities determine their service performance objectives and overall objectives.

A good example of how to determine the relevant service performance objectives of the WoG might be to consider the State/Territory Premier's priorities. For example, the New South Wales Government publishes the State's current priorities, which include creating jobs, building infrastructure, reducing domestic violence etc. These priorities do not aggregate all of the service performance objectives of each department or agency within New South Wales, but highlight the key areas of focus for the State. These priorities would likely be considered the most relevant to key stakeholders.

1. 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?

We agree that for most entities the reporting entity for which service performance information is reported should be the same as that used for the entity's financial statements (ie. a parent and its controlled entities). In our view, it is most relevant for an entity to report on the activities that it controls, consistent with the principles in AASB 10 *Consolidated financial statements*.

However, we think reporters may need more guidance to understand how to identify objectives at a consolidated level, particularly where a diverse range of objectives exist. Currently paragraph AG7 of the ED does not clearly articulate how to identify what objectives would be useful to users – only that such objectives must be identified.

Given the diversity of objectives that a group of entities might have, particularly for public sector entities, it may be a complex exercise to identify which of these objectives are important and relevant for users. Identifying what is useful to users as a whole may be further complicated where there are different user groups who may be interested in different elements of the entity's service performance. In this circumstance, reporting an entity's objectives on an aggregated basis might obscure information relevant to particular user groups, while a granular presentation that meets every user-group's information needs may result in information that is too detailed. We believe further guidance is required to assist entities in identifying how to best tailor information to meet users' needs.

1. 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 with giving entities flexibility to decide where to present service performance information.

Paragraph 18 requires that where information is not presented in a single report, an entity is required to identify where the information is located by cross-referencing. However, it unclear how this requirement would be met (eg. whether a ‘main’/summary report would need to be prepared that would include a cross-reference to the other reports, whether the cross-reference to reports should be from the annual report or the financial statements themselves, and what the primary report should be).

Paragraph AG16 contains a similar requirement that says service performance information should be “cross-referenced to information in the relevant financial statements” where service performance information and financial statements are not for corresponding time-periods. Clarity is required around the level of information required to meet this requirement (eg. whether entities would need to reconcile information to the financial statements or simply identify the financial reporting periods to which the service performance information corresponds (as required by AG12/AG13)).

If giving entities options for how to present service performance information, it would also be useful to provide guidance on the factors entities might consider in determining what type of presentation would be most useful to users.

Service performance information is often most accessible to users when provided on an entity’s website so we recommend the final standard encourage entities to provide this information online.

- 1. 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?**

We agree information could be reported for a different time period than an entity’s financial statements to allow for flexibility and ensure information is useful to users. We support the explicit comment in the ED that alignment with the financial statements is preferable.

We recommend adding an explicit requirement that reporting periods selected should result in no gaps in the periods covered by service performance information. Reporting periods should only be changed where this would result in more relevant information.

We agree with annual reporting and the recommendation to provide comparative information if it is useful to users.

- 1. 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?

We agree with the terms and their definitions proposed in Appendix A.

We note paragraph AG49(a)(iii)(B) requires an entity to report the relationship(s) between an entity's service performance objectives and the entity's overall objectives. We consider it would be useful to either define or further explain what is meant by an entity's 'overall objectives' and how they would differ from an entity's service performance objectives.

- 1. 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 proposals in the draft standard should be mandatory to affected entities.

However, we recommend the AASB further consider how mandatory application would be operationalised and how it might interact with auditing standards. Some uncertainty may arise as to the legal status and enforceability of the standard, particularly if information is not audited or reviewed. It will be important for the AASB to work with regulators - including the ACNC - to ensure the status of the standard is clear to reporters, including whether it would be subject to audit or review.

It may be unclear how the mandatory status of the standard will interact with AASB 1054 *Australian Additional Disclosures* paragraph 7, which requires entities to make an explicit and unreserved statement that their financial statements comply with Australian Accounting Standards (eg. for entities adopting a service performance reporting period different to their financial reporting period).

- 1. 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?

We note that a number of major reporting standards are coming into effect for entities in the next several years, including AASB 9 *Financial instruments* (1 January 2018), AASB 15 *Revenue from contracts with customers* (1 January 2018) and AASB 16 *Leases* (1 January 2019).

To allow entities sufficient time to adopt the new standard, we recommend an effective date of at least 1 July 2019 or, if later, a minimum of 2 years from the issue date.

General Matters for Comment

1. 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?**

As noted, many public sector entities currently report on service performance under State/Territory guidance and regulation. We recommend the AASB review the proposed and existing requirements and work with regulators to ensure it is clear which guidance would take precedence.

No other issues have been identified.

- (b) overall, the proposals would result in reporting that would be useful to users?**

We agree that, subject to the comments above, 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 agree that the proposals are in the best interests of the Australian economy and would enhance confidence in the not-for-profit sector.

- 1. 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.**

No further issues identified.