



ACT
Government

Chief Minister, Treasury and
Economic Development

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

Dear Ms Peach,

ED 270 Reporting Service Performance Information

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on Exposure Draft 270 *Reporting Service Performance Information*.

HoTARAC agrees with the high-level principles and the broad objective of reporting service performance information that is useful for accountability and decision-making purposes. However, HoTARAC has significant concerns with the detail of the [draft] Standard in its current form. In particular, HoTARAC **does not support** –

- mandatory application;
- the proposed effective date;
- the proposed level of detail to be reported by all entities (specifically that required by paragraphs 65 to 68 and AG48 to AG53); and
- the AASB specifying the scope of entities to which the proposals should apply.

Further elaboration about these and other concerns is outlined in HoTARAC's responses to each question in the attachment below.

If you have any queries regarding HoTARAC's comments, please contact Alison Cuthbert from Queensland Treasury, by phone on 07 3035 1431 or by email, alison.cuthbert@treasury.qld.gov.au.

Yours sincerely,

David Nicol

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

29 April 2016

AASB Specific Matters for Comment

Question 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?

HoTARAC **agrees** with the proposed high-level principles for reporting service performance information to facilitate accountability and transparency at an individual entity level. For service performance information to be useful for decision-making purposes, an entity needs to report high quality and robust performance information to be able to demonstrate the extent to which it has achieved its key service objectives.

However, HoTARAC is concerned that the objective of information usefulness (point (a) above) may not be achieved if the requirements are applied at the consolidated level, in particular, to the General Government Sector and Whole-of-Government levels.

In addition, HoTARAC suggests the removal of point (d) above regarding efficiency and effectiveness as a principle for reporting service performance information. The requirement for an entity to report on the efficiency and effectiveness of the entity's service performance is considered by HoTARAC to be too onerous in its current form.

Question 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?

HoTARAC **does not agree** that it is appropriate for the [draft] Standard to be issued in its current form. Instead, HoTARAC **strongly recommends**:

- that the AASB instead issue a revised version of this [draft] Standard as a non-mandatory conceptual statement that provides guidance; and
- that the [draft] Standard specify that the relevant NFP regulator (such as Government Treasuries, Australian Charities and Not-for-profits Commission, Australian Securities and Investments Commission) is to determine the scope of entities that are to apply the [draft] Standard (subject to other comments made in this submission about more specific issues).

HoTARAC believes that each regulator is in the best place to assess the existence of any information gaps, the application of the proposed requirements to the entities it regulates, and the consequential costs and benefits. The regulator should therefore determine whether application of the [draft] Standard is to be mandatory, and the reporting entities to which it applies.

While HoTARAC agrees with the view that the overall performance of NFP entities cannot be effectively judged from general purpose financial statements alone, there are well-established State/Territory and national frameworks for public sector entities that mandate service performance reporting. As mentioned elsewhere in this submission, there is considerable service performance information prepared under current reporting frameworks that is publicly available and provides users with information for accountability and decision-making purposes.

An example of an existing national performance reporting framework at the Whole-of-Government (WoG) level is the Review of Government Service Provision which was established to provide information on the equity, efficiency and cost effectiveness of a range of government services in Australia, through the publication of the annual Report on Government Services (RoGS). The RoGS framework is maintained by the Australian Government's Productivity Commission. Since 1993, public sector entities have been required to comply with the extensive requirements of this reporting framework. This RoGS provides meaningful, comparative information on the provision of government services, including both qualitative and quantitative information. The RoGS reporting framework reflects the process through which service providers transform inputs into outputs and outcomes to achieve desired policy and program objectives. It is intended to improve service delivery, efficiency and performance, and promote public accountability of the entities delivering the associated services – which is the same ultimate objective as the ED 270 proposals.

An entity's annual report is likely to be the primary source of information accessed by users to assess an individual entity's performance. At a State/Territory level, annual report requirements mandate the disclosure of information about NFP public sector entities' performance, including programs and outputs delivered. In addition, long-standing arrangements exist for the reporting of comprehensive service performance information about such individual entities within annual published budget papers. HoTARAC considers the current long-standing service performance reporting frameworks collectively provide sufficient information for users for accountability and decision-making purposes in respect of the entities that are in scope of those frameworks. Therefore, HoTARAC questions the perceived information gap that this [draft] Standard is intended to address in the public sector.

HoTARAC is also concerned that there is a misconception by the AASB that NFP public sector entities that report performance information under existing frameworks will not be significantly impacted by the application of this [draft] Standard. Due to the [draft] Standard containing quite detailed requirements rather than a high-level framework, HoTARAC is very concerned that it will be costly to implement it in its current form.

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In particular, HoTARAC notes that the IPSASB Recommended Practice Guideline *Reporting Service Performance Information* (IPSASB RPG) that this [draft] Standard is based on does not contain the same detailed requirements. In particular, paragraph 38 of IPSASB RPG only states that the following information should be displayed:

- (a) service performance objectives
- (b) performance indicators; and
- (c) total costs of the services.

In contrast, paragraph 65 of the [draft] Standard requires reporting:

- (a) service performance objectives;
- (b) performance indicators:
 - i. inputs;
 - ii. outputs;
 - iii. outcomes;
 - iv. link between inputs and outputs and/or outcomes (efficiency); and
 - v. link between outputs and/or outcomes and service performance objectives (effectiveness);
- (c) total costs of goods and/or services; and
- (d) assumptions and methodologies adopted.

Other examples of the detail are in paragraph AG 51 - requiring disclosure of cost allocation policies, the treatment of direct and indirect expenses, and reconciliation between costs of outputs and total expenses reported in general purpose financial statements.

Subject to HoTARAC's responses to other questions, HoTARAC believes that if the [draft] Standard did no more than reiterate the IPSASB RPG paragraph 38 - rather than the proposed requirements in paragraphs 65-68 and AG48-AG53 - it would be less onerous for entities to implement.

Question 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?

HoTARAC believes that the general-purpose financial statements of for-profit entities adequately meet the information needs of their users and accordingly **does not agree** with application of the [draft] Standard to for-profit entities. HoTARAC acknowledges that the AASB generally adopts a transaction neutral approach to Australian Accounting Standards, and that the proposals in this ED could theoretically apply to for-profit entities. However, HoTARAC agrees with the AASB's observation that the principle objectives of NFP and for-profit entities are very different. On that basis, the additional cost of applying the ED's proposals to for-profit entities is unlikely to justify any additional benefits that might result.

Although HoTARAC understands that the AASB is legally able to issue a standard on service performance reporting, HoTARAC questions the appropriateness given other global initiatives that also deal with reporting on service performance, particularly the work undertaken by the International Integrated Reporting Council.

Question 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 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?

As explained in response to earlier questions, HoTARAC **does not support** mandating the application of this [draft] Standard in its current form to any entity, including consolidated groups. In particular, HoTARAC **does not support** application to the WoG and General Government Sector (GGS) levels.

HoTARAC believes it is unlikely that meaningful and measurable service performance objectives would exist at the WoG and GGS level. It is highly unlikely that separate outcomes or plans would be articulated in respect of the GGS, so application to the GGS would be of very limited usefulness. Also, experience in Australia and overseas has demonstrated that performance measurement at the WoG level is extremely challenging and highly subjective.

At a WoG level, achievement and measurement of planned outcomes often have a very long time horizon, and generally relate to progress by a large number of individual entities. Hence, the identification of evidence of progress in those circumstances is difficult. For example, a Government may have a stated outcome to improve the quality and responsiveness of frontline services. Such an outcome is difficult to measure at a WoG level, particularly as it necessarily translates to specific entity level performance measures (e.g. improved accuracy in payroll tax assessments, reduced hospital waiting times etc) that do not lend themselves to aggregation.

In addition, WoG objectives – by their nature - are political, reflecting the governing party's ideologies, and change with changes in the governing party, or even the leadership of the same party. Where that occurs, HoTARAC believes paragraph AG57 would be impracticable, as systems and processes would be unlikely to cater for reporting against superseded performance objectives etc.

Subject to how the AASB addresses HoTARAC's recommendations on question 2, HoTARAC recommends that WoG and GGS should be excluded from the [draft] Standard's scope because it is difficult to identify something that would constitute a Government

plan, particularly as (politically-driven) Government priorities may not be the same as (less politically-driven) WoG service objectives. In particular:

- WoG targets published by the Government may not always be the most appropriate targets to report against, and are rarely proportionate or representative of overall government inputs, activities and outputs;
- WoG targets published by the Government may not reflect the scale or scope of WoG but rather they may be selective and of short or medium term focus;
- WoG strategic plans can be difficult to link with inputs and financial information;
- Government usually change WoG performance targets following changes of government and/or changes of political leadership; and
- WoG is a NFP entity but consolidates some for-profit entities that will not individually be subject to the [draft] Standard.

As mentioned in HoTARAC's response to question 2, HoTARAC believes that the RoGS provides useful information about the actual performance of Government at the State, Territory and Australian Government level. This information is prepared on a consistent basis across all governments and as a result provides a higher level of comparability than if each were to set, and report against, their own criteria.

In light of the above issues, HoTARAC questions the information gap at the GGS and WoG level that this [draft] Standard is intended to fill, and seeks the AASB's clarification about who are the users that require such information and what is the information gap that is supposed to exist.

In relation to the AASB's concern about any entities within the consolidated group to which the [draft] standard may not apply, it is presumed that it would be because those entities are either for-profit in nature or else not "reporting entities". As stated in response to question 3 above, HoTARAC does not believe there is adequate justification to apply these proposals to for-profit entities. In addition, if an entity is not a "reporting entity", then presumably there are not users who need information about the entity.

Question 5—This [draft] Standard proposed 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?

Subject to HoTARAC's recommendations regarding question 2, HoTARAC agrees that the reporting entity for which service performance information is reported should generally be the same as that used for the entity's financial statements. This is to ensure ease of understanding and interpretation against financial statement information for the same activities.

However, contemporary service delivery (particularly in the public sector) can sometimes involve purchaser/provider arrangements along a chain of separate entities, similar to "sub-contracting". In the context of paragraphs 66 and AG8, HoTARAC strongly recommends that the AASB develop guidance to deal with those more complex arrangements. For example, where multiple entities are involved in the delivery of a service, which entity is accountable for the achievement of an outcome, and should be responsible for reporting the service performance information?).

Question 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?

HoTARAC notes that the references to “reporting entity” in the ED strongly suggest that such information should be reported in conjunction with general purpose financial statements (e.g. in accompanying annual reports). HoTARAC **strongly recommends** that the [draft] Standard **prohibit** service performance information from being included in general-purpose financial statements. This will ensure that financial statements remain focussed on financial matters and ensure that audit mandate/processes in relation to these two types of information can be separated.

Subject to that recommendation being addressed, HoTARAC is supportive of the [draft] Standard allowing flexibility in the location of service performance information. That flexibility would allow each entity or regulator (as applicable) to make its own decision about the appropriate location, in light of their current reporting framework.

Question 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?

Subject to HoTARAC’s recommendations regarding question 2, HoTARAC **agrees** that in most cases an entity’s service performance information should be reported in respect of the same time period as the entity’s general purpose financial statements. This optimises interpretation of that information against associated financial statement information. However, the [draft] Standard should also provide flexibility to entities that report, for example, their strategic outcomes on a calendar year whilst their financial statements are based on a financial year of July-June.

HoTARAC also supports the [draft] Standard allowing flexibility where another performance reporting framework mandates a different time period.

Question 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?

HoTARAC **generally agrees** with the defined terms in Appendix A and that they appropriately explain the significant terms in the [draft] Standard. However, in light of the various performance reporting frameworks in place, HoTARAC stresses the need for definitions in the [draft] Standard to be at a high enough level to avoid technical conflicts with established concepts in those frameworks. Consistency in language of the [draft] Standard is also important for application by preparers e.g. the [draft] Standard refers to 'performance indicators' and in other places to 'actual service performance', but those terms appear to be dealing with the same subject matter.

HoTARAC notes that, after many years of experience with developing performance indicators for 'efficiency' and 'effectiveness', this continues to be a "work-in-progress" in respect of many government services. The principles in the [draft] Standard (refer paragraphs 46-49) are fairly simple and mechanistic and are not particularly useful. Experience has shown that efficiency and effectiveness are challenging to define and measure, i.e. developing robust and cost effective data collection and measurement, and determining impact and causality of output to outcome effects and inputs to outcomes. For a number of government services, costing outputs is both challenging and expensive and for many services is still no more than a high-level cost allocation.

HoTARAC also questions how an entity can measure 'efficiency' and 'effectiveness', and compare performance consistently over multiple years, where outputs and outcomes can only be defined qualitatively.

Question 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?

Consistent with HoTARAC's recommendations under question 2, HoTARAC **does not agree** that this [draft] Standard – in its current form - should be mandatory. HoTARAC **strongly recommends** that the AASB issue a revised version of this [draft] Standard as no more than a recommended practice statement.

Subject to other HoTARAC recommendations, if the AASB determines that it is appropriate to issue this [draft] Standard for mandatory application, HoTARAC strongly recommends that a staged implementation approach be adopted by the AASB. HoTARAC members' collective experience with service performance reporting has demonstrated

that it takes many years of development and refinement of performance measures and data collection processes before such information is useful.

Compliance with the [draft] Standard's detailed requirements will require significant preparation and training. Subject to the AASB's response to HoTARAC's recommendations under question 10, transitional arrangements that support entities in implementing this [draft] Standard would assist in reducing the initial compliance burden and facilitate an orderly development of entity capability in service performance reporting. HoTARAC would suggest this take the form of possibly requiring only narrative information about service performance in the early years, followed by the introduction of reporting against indicators and, finally, subject to other comments in this response, the requirement to report efficiency and effectiveness.

In addition, the [draft] Standard states that whether the service performance information is required to be audited is a matter for each entity's regulator. In the public sector, the "regulator" may have limited control over whether such information is audited. Unlike audits of financial statements, there is currently no national framework regarding the appropriateness of performance measures to assess the delivery of services. Under these circumstances, audit opinions would be from the perspective of the reviewer, rather than widely-accepted best practice audit principles. The proposals in this ED would cause an audit of service performance information to be very costly and onerous, especially if the [draft] standard was mandatory. A likely unintended consequence would be a bias towards reporting only that information that is easily/objectively measurable, to improve its "auditability", contrary to the expectation in paragraph AG42.

Question 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?

Subject to how the AASB addresses HoTARAC's responses to other questions, HoTARAC **questions the feasibility** of the proposed application date of 1 July 2018. HoTARAC's experience has demonstrated that the imposition of reporting requirements does not guarantee the quality of the resulting information, and that takes a significant period of time and experience to achieve. Therefore, HoTARAC urges the AASB to take into consideration the findings from its outreach with affected entities, particularly those not currently undertaking this type of reporting, to assess what would be involved (and the time required) for a NFP entity to implement the new data collection systems and processes required. In addition, public sector entities will require considerable time for any existing legislative requirements (for the reporting of this type of information) to potentially be changed to mandate compliance or to remove any conflict with the [draft] Standard.

Further, HoTARAC recommends that the AASB consider delaying/aligning implementation of the requirements of this [draft] Standard with timeframes for any fundamental future changes to the Australian financial reporting framework. One of the stated benefits of this [draft] Standard is to enable NFP entities to better satisfy their accountability obligations. It is recognised that while general-purpose financial statements may not sufficiently meet the needs of users, they place a significant administrative burden on NFP entities. The introduction of this [draft] Standard without any relief from existing

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reporting requirements would compound this issue, potentially leading to a reduction in quality of both traditional financial reporting and service performance disclosures.

In light of all the above considerations, and the effective date of a number of other new accounting standards (e.g. for revenue, financial instruments and leases), HoTARAC strongly recommends that the effective date of the [draft] Standard be no earlier than reporting periods beginning on or after 1 July 2020.

General Matters for Comment

11. Whether:

- (a) there are any regulatory issues 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?

- (a) HoTARAC is concerned that the requirements of the [draft] Standard may create regulatory issues for State and Territory governments due to conflict with reporting frameworks currently in place. If this [draft] Standard is issued for mandatory application, some jurisdictions will need to amend legislation to remove those conflicts and to mandate of compliance with Australian Accounting Standards for the reporting of service performance information. HoTARAC cannot comment on implications for private sector NFP entities. HoTARAC does not believe there will be GAAP/GFS implications.
- (b) Also, paragraph 81 of ED 270 requires consistency in reporting service performance information from year to year. Public sector departments are subject to frequent reorganisations of functions, which significantly hampers consistency in what is reported on from year to year. In light of HoTARAC's responses to other questions, HoTARAC is not convinced that the additional information that would be reported under the [draft] Standard (compared to current reporting arrangements) would provide any greater utility in respect of NFP public sector entities.

HoTARAC has concerns about the application of the proposed requirements to qualitative measures, in terms of the reliability of narrative performance information reported. Subject to addressing that concern, for other NFP entities, the additional information reported may be useful where an "information gap" currently exists (in line with HoTARAC's underlying concern).

Based on many years of experience with this type of reporting within each State/Territory, the principle of "less is more" has been found to be important. Therefore, HoTARAC strongly recommends that the detail in the body of the [draft] standard be condensed accordingly, to reinforce paragraph AG37.

- (c) HoTARAC has no comment on whether the proposals are in the best interests of the Australian economy.

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.

HoTARAC notes the AASB's view that the proposals in ED 270 should not have significant impact on those NFP entities that are already reporting service performance information. However, HoTARAC believes the proposed requirements exceed what is currently required under existing service performance reporting frameworks. Paragraphs 65 and 66 and the accompanying application guidance paragraphs (AG48 – AG53) require reporting of a substantial amount of detail. In those paragraphs, lists of various aspects of performance are linked by the word "and" rather than "or", implying that each aspect needs to be addressed in the reported information. The illustrative examples are considered to be very simplistic and provide minimal assistance in interpreting how much detail is required in real-life situations.

If HoTARAC's recommendations and concerns are not addressed by the AASB, HoTARAC is very concerned that the [draft] standard will lead to significant increased costs to public sector NFP entities in return for little incremental benefit to users, where they are already able to obtain adequate publicly available information about service performance.

Reference should also be made to HoTARAC's comments on question 11(b) above.

