

Dr Keith Kendall
Chair, Australian Accounting Standards Board
PO Box 204
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7 February 2022

Dear Dr Kendall,

Invitation to Comment – ITC 46 AASB Agenda Consultation 2022–2026

We are pleased to respond to the invitation to comment on the agenda consultation of the AASB published on 7 October 2021. Our comments are directed at Service Performance Reporting (SPR)-related matters in ITC 46, informed by our research on the potential standardisation of SPR for Not-For-Profits (NFPs) in Australia. In addition to our direct research on SPR, we also have wide-ranging research experience in both the NFP sector and standard-setting, publishing articles in a variety of leading accounting journals such as *Accounting, Organizations and Society*, *Harvard Business Review*, *Nonprofit and Voluntary Sector Quarterly*, and *Voluntas*. While the members of this research team are employed in the Department of Accounting at Monash University, the views expressed in this letter do not necessarily reflect the position of the department or the university.

Our research on the potential standardisation of SPR for Not-For-Profits (NFPs) in Australia analysed the development of ED 270 *Reporting Service Performance Information*, drawing on publicly available documents and 66 interviews with a broad range of stakeholders in Australia. The preliminary findings of our research were presented at the 2019 AASB Research Forum in Melbourne (Hall et al., 2019), and we have since developed a Working Paper that was cited at the November 2021 meeting of the AASB in regards to the *Not-for-Profit Private Sector Financial Reporting Framework* (Hall et al., 2021). Our research points to the value of basing future SPR standard-setting decisions on a more robust evidence base that includes analysis of international experiences with SPR and deeper engagement with stakeholders – in particular, NFPs and donors – many of which were not directly involved in or consulted during the development of ED 270.

We recommend undertaking a research project to inform the development of an SPR standard and, in particular, to determine the scope of an SPR standard. To address some of the problems raised with ED 270, the research would focus on understanding the information needs of SPR users and identifying what is feasible for NFPs to prepare, taking into the account the diversity of NFPs – some of which have limited capacities for external reporting.

In developing a more robust evidence base, we suggest the AASB consider: (1) recent international experiences; and (2) deeper engagement with NFPs and donors.

1. Further research on international SPR experiences

- In comparison with ED 270, our study suggests that the relevant standard in New Zealand (PBE FRS 48) effective from 1 January 2022 – which comprises high-level principles – has the potential to be more workable because it provides NFPs with flexibility to ‘tell their own story’, rather than being required to report on measures of efficiency and effectiveness.

- Future research on SPR should include a study of the implementation of PBE FRS 48. In addition to analysing publicly available material, the research would benefit from direct engagement with a variety of NFPs and users of SPR in New Zealand following its implementation.

2. Deeper engagement with private NFPs and donor communities on SPR

- AASB Research Report 14 *Literature Review: Service Performance Reporting for Not-for-Profits* concludes that stakeholders prefer standardised service performance information, particularly quantitative output-based or outcome-based measures of effectiveness. Based on our own deep knowledge and assessment of the international research evidence, coupled with our direct research on SPR in Australia, we believe such a conclusion is quite premature and should not form the starting point for developing any new standard on SPR in Australia.
- Our direct research with stakeholders in Australia indicates that many of the detailed assumptions and prescriptions in ED 270 were problematic, including the use of quantitative measures of effectiveness. How different stakeholders would react when presented with a more flexible standard or guidance on SPR is not well understood. Research is needed that involves direct dialogue with representatives of large NFPs, small-medium size NFPs, and public sector organisations, along with a variety of donors (e.g. philanthropists, grant makers, everyday donors). Discerning the views of smaller NFPs and the potential users of this information would be particularly important due to their limited participation in previous consultations on SPR. In this vein, more needs to be done to encourage stakeholders to participate in consultation exercises who are typically not involved in accounting standard setting within the current due process framework. In particular, more could be done to specify how the relevant stakeholders (especially the users of SPR information) are identified and engaged in standard setting initiatives.
- Insights from deeper engagement with private NFPs and donor communities would help inform the AASB as to whether a new SPR standard is needed, whether the standard should be mandatory or voluntary, and crucially, how the content of any subsequent exposure draft might be designed in such a way as to be more workable and useful to users and preparers alike.

We urge the AASB to consider these issues in its deliberations on future standard-setting activities for SPR in Australia. We are happy to discuss any of these points in more detail.

Yours sincerely,



Professor Matthew Hall
Dr Damien Lambert
Dr Richard Pucci
Dr Paul J. Thambar