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**Australian Accounting  
Standards Board**

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CANADA

Dear Stephenie

**IPSASB Exposure Draft ED 54 Reporting Service Performance Information**

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IPSASB Exposure Draft ED 54 *Reporting Service Performance Information* (the ED). The AASB welcomes the work of the IPSASB in this area and sees it as a positive step towards facilitating improvements to the quality of service performance reporting by public sector entities.

The AASB notes that the ED is written within the context of the IPSASB's Conceptual Framework and the IPSASB's suite of pronouncements. It is within that context that the AASB expresses its comments.

While the AASB broadly agrees with many of the specific proposals, it has a number of suggested improvements. The AASB's main comments on the ED, which are expanded on in the attached Appendix, include:

- the Recommended Practice Guideline (RPG) could usefully make clear that the service performance information an entity should provide should be driven by the entity's objectives;
- in that regard, it would be useful for the RPG to include guidance on the development of relevant objectives, as this is critical to meaningful outcome assessments. The guidance should also highlight the key attributes of a good objective (i.e., it is assessable, there is a clear nexus between the objective and outcomes);
- despite the RPG's non-mandatory status, striking a more appropriate balance between improvements to the quality of service performance reporting practices and the costs entities might incur to make such improvements would benefit users of general purpose service performance information; and
- the RPG should further emphasise the principles for and the circumstances in which 'quantitative measures' or 'qualitative measures' or 'qualitative descriptions' about outputs and outcomes might be most suitable, individually or in combination.

The AASB's comments on the Specific Matters for Comment are set out in the attached Appendix.

If you have any queries regarding any matters in this submission, please contact Joanna Spencer ([jspencer@asb.gov.au](mailto:jspencer@asb.gov.au)).

Yours sincerely

Kevin M. Stevenson  
Chairman and CEO

### **AASB's Comments on the IPSASB Exposure Draft ED 54 *Reporting Service Performance Information***

The AASB's views on the Specific Matters for Comment (SMC) in the ED are as follows:

#### **Specific Matter for Comment 1**

Do you generally agree with the proposals in the ED? If not, please provide reasons.

The AASB considers that the proposals in the ED show the extent of work undertaken by the IPSASB to date with the preceding Consultation Paper and, in general, agrees with many of the proposals. In addition to some specific issues noted in response to later SMCs the AASB has the following comments and suggestions for improvements.

Whilst acknowledging the reasons why Government Business Enterprises (GBEs) are scoped out of the proposed Recommended Practice Guideline (RPG), the AASB suggests that perhaps, in due course, the IPSASB could provide guidance for GBEs reporting service performance information about their non-commercial operations, such as their performance in fulfilling community service obligations. In the meantime, perhaps GBEs could be encouraged to consider applying relevant aspects of the RPG on a voluntary basis.

The AASB considers that service performance information is potentially broader than what is contemplated in the ED. However, for the purpose of the RPG and therefore General Purpose Financial Reports (GPFs), the AASB agrees that the RPG should be constrained in the same way as expressed in paragraph 1 (second sentence) of the ED. For clarity, the second sentence of paragraph 1 of the ED should be amended to read 'For the purpose of this RPG, service performance information is information ...'

Further, because many policy objectives in the public sector will commonly take many years to achieve, it would be helpful for the RPG to state that 'service performance information is information for users on an entity's service performance objectives, its achievement of those objectives or progress towards them', alternatively 'the extent of its achievement of those objectives'. This would be consistent with the wording in paragraph 25 of the ED.

Paragraphs 21-22 of the ED appear to suggest a preference for service performance information that can be measured, even though paragraphs 58-59 of the ED acknowledge that qualitative descriptions<sup>1</sup> can also be a valuable source of information for users. The AASB considers that some service performance information is better communicated via qualitative descriptions rather than quantitative or qualitative measures. Further, the ED seems to imply that service performance information should only be presented in either a quantitative **or** qualitative way. Acknowledging that a combination of such information might be appropriate and would support improved reporting, particularly in complex areas.

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<sup>1</sup> The AASB considers that the term 'qualitative descriptions' is preferable to 'qualitative discussions' as the latter term is more suited to the context of Management Discussion and Analysis rather than Service Performance Reporting.

The RPG could usefully make clear that service performance information an entity should provide should be driven by that entity's objectives. In that regard, it would also be useful to include guidance on the development of relevant objectives, as relevance of objectives is critical in meaningful output and outcome assessments. The guidance should also highlight the key attributes of a good objective (i.e., it is assessable, there is a clear nexus between the objective and outputs and outcomes).

Where information about aspects of service performance (example., obtaining resources, achieving outcomes, disaggregation of costs, and progress towards long-term objectives) is relevant to users for assessing an entity's achievements of its objectives, then the AASB suggests that the RPG more strongly recommend (rather than merely encourage) disclosure.

The AASB is aware that there is a variety of funding and governance arrangements for public sector entities, and that in some cases such entities might be responsible for generating all or a substantial proportion of their funding, rather than relying on government appropriations; and in some cases disaggregated cost information is relevant to accountability. The comments provided below should be read in this context.

- (a) The AASB notes that the ED does not address information regarding an entity's performance in obtaining resources, (although paragraph 38 of the ED alludes to it by referring to "service performance objectives related to increasing ... inputs ..."). The AASB considers that 'obtaining resources' is a fundamental aspect to be considered for service performance reporting for some entities that would be subject to the RPG and should be addressed in the final RPG, particularly as the ED discusses the impact of resource availability on achieving service performance objectives. In addition, the AASB acknowledges that it may be argued by some that this information could be provided through IPSASB RPG 1 *Reporting on Long-Term Sustainability of an Entity's Finances*, but given that RPG 1 is not mandatory, there is no guarantee that this information would be provided. Furthermore, RPG 1's references to obtaining resources tend to focus on resources from, for example, recognised revenue. However, in a service performance reporting context, information about, for example, volunteer services is also pertinent.
- (b) Paragraph 55 of the ED encourages the display of information about an entity's intended outcomes and its achievements with respect to those outcomes. Consistent with the comments above, the AASB considers that information about an entity's performance against its intended outcomes is a relevant component of service performance and thinks its importance may outweigh the arguments put forward in paragraph BC38 of the ED regarding difficulty for entities to provide outcome information. Although this information may be difficult to obtain, it is likely to be at least as useful as information about outputs, as it provides, for example, information on the impacts on society, and therefore would give an indication as to whether the service provided by the entity is of value to the community. The AASB is particularly of the view that if an entity has made its intended outcomes public then that entity should report its achievements with respect to those outcomes. The AASB explains later in this appendix (see SMC 9) that the use of proxy measures, or indirect measures, of performance might be suitable where more direct outcome measures are unable to be identified or are too costly to obtain and outcome descriptions are not sufficient.

- (c) The AASB considers that paragraphs 65 and 80(g) of the ED should go further than encouraging the reporting of disaggregated cost information. Disaggregated costs should be disclosed on a basis that is relevant to users for their understanding – for example, disclosed on the same basis that management use for the organisation and running of projects. Should the IPSASB choose not to adopt the stronger requirements suggested by the AASB, the AASB recommends that the RPG at least explicitly encourages a distinction between direct and indirect costs – and a functional classification of indirect costs, distinguishing between, for example, administration and fundraising costs (where relevant). Despite the absence of universally agreed definitions of different categories of costs, this information is useful to users in a service performance reporting context because resource providers may be particularly interested in what percentage of obtained resources are consumed by administration or by obtaining resources and therefore are not available to be used directly to provide services. Given the issues inherent in classifying costs between entities, the AASB believes that it may be inappropriate for the IPSASB to specify consistent aggregate measures that an entity should disclose, for example, an administration cost ratio. An alternative focus for the RPG would be to facilitate that provision of information from which users can calculate their own ratios for their particular needs for the purposes of, for example, comparing budget to actual information, or for assessing the same entity over time.

The AASB also considers that an illustrative example or a best practice guide should accompany the RPG, to illustrate what a service performance report might look like. Preparers would also benefit from the availability of a checklist to assist implementation.

### **Specific Matter for Comment 2**

Do you agree with the definitions in paragraph 8? If not, please provide reasons.

In general, the AASB agrees with the definitions provided in paragraph 8 of the ED, except as noted in the following comments.

The AASB considers that the definition of ‘effectiveness’ is tautological because ‘actual results’ and ‘outputs or outcomes’ are the same. The AASB suggests this definition be amended to ‘effectiveness is the relationship between service performance objectives and outputs or outcomes’, which also has the benefit of directly linking service performance objectives to outputs and outcomes.

The proposed definition of ‘outcomes’ states that the mere existence of an entity can be an outcome for that entity. The AASB considers that the existence of an entity controlled by a government should only be regarded as an outcome from a whole of government perspective rather than the entity’s own perspective. This is because it is the activities of an entity that leads to that entity’s performance – an entity’s impact from its existence as separate from its activities should not be attributed to the entity itself. This difference should be reflected in the definitions.

In relation to the proposed definition of ‘outcomes’, the AASB considers that the term ‘society’ should be explained in a way that it is more than a collective term and that it encapsulates individual and/or individual groups and is not exclusively society as a whole.

The AASB thinks that the term ‘performance indicators’ has acquired a narrow meaning in practice due to the pervasive use of the term ‘key performance indicators’, which has a quantitative measurement connotation. Because the ED’s definition refers to quantitative and qualitative measures and qualitative discussions (which the AASB thinks would be better described as qualitative descriptions – see footnote 1 to the AASB’s response to SMC 1 above) a broader term, such as ‘indicators of performance’, may better capture these principles.

### **Specific Matter for Comment 3**

Do you agree that the ED adequately addresses reporting of service performance information by entities at different levels within government, including situations where a controlling entity reports service performance information that encompasses that provided by controlled entities? If not, how would you modify the ED’s coverage of this?

The AASB agrees that the issue of reporting of service performance information by entities at different levels within government has been dealt with sufficiently and does not suggest any modifications to the proposals in the ED.

### **Specific Matter for Comment 4**

Do you agree that service performance information should:

- (a) Be reported annually; and,
- (b) Use the same reporting period as that for the financial statements?

#### SMC 4(a)

The AASB agrees that service performance information should be reported annually. When performance objectives are likely to require periods longer than one year to achieve, the AASB considers paragraph 72 of ED 54 should also require entities to provide information about progress towards achieving those objectives. Consistent with the AASB’s comments in the 4<sup>th</sup> paragraph of its response to SMC 1, the AASB considers that this information is useful to users to assist in decision-making and recommends that the RPG be definitive and require entities to provide information regarding any progress towards achieving those objectives.

#### SMC 4(b)

The AASB agrees that, where practicable<sup>2</sup>, service performance information should be presented using the same period as that for the financial statements. The AASB notes that paragraph BC23 of ED 54 suggests that where this is not the case, this situation could be addressed through additional disclosures. However, it does not appear that this recommendation has been included in the RPG explicitly. The AASB suggests that the

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<sup>2</sup> The AASB notes that the last sentence of paragraph 29 of ED 54 contemplates an entity making its own cost vs benefit assessment on whether to align reporting periods. However, consistent with its response to SMC 5 (see subparagraph (a)) below the AASB is of the view that the RPG should be expressed in a way that requires the reporting periods to be aligned, where practicable; with an explanation disclosed where an entity determines that it is not practicable.

RPG states that when the reporting periods for service performance information and financial statements do not align, additional disclosure should be made.

### **Specific Matter for Comment 5**

Do you agree with the ED's proposed principles for presentation of service performance information (see paragraphs 31 to 39)? If not how would you modify them?

In general, the AASB agrees with the proposed principles for presentation of service performance information. The AASB has the following specific comments regarding paragraphs 37 and 39 of the ED.

- (a) Paragraph 37 could be read as giving an entity relief from applying aspects of the RPG due to the entity's own cost/benefit assessment, and still be able to claim compliance with the RPG. In terms of compliance with standards, costs vs benefits is not generally applied as an entity-level assessment tool, as it is usually used as a standard-setting criterion. Where information is considered material, a preparer should not be able to exclude the material information on the basis that the cost to it of providing that information is too great in relation to the benefit to the users. Where judgement is involved, there should be transparency about this application disclosed. The AASB notes that in paragraph BC3.33 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* the IPSASB expresses a view that an entity should not be able to use the cost/benefit constraint to justify not applying an International Public Sector Accounting Standard (IPSAS) and still claim compliance with IPSASs – the AASB thinks that the same principle should apply here. Accordingly, the AASB is of the view that paragraph 37 needs amending to address this matter, but in a way that continues to be cognisant of the RPG not containing requirements that are a disincentive to its adoption.
- (b) Regarding paragraph 39, the AASB suggests the IPSASB considers how to re-express that paragraph to convey an integrated relationship between the RPG and jurisdictional requirements. One suggestion would be to adopt an approach similar to what was adopted in Australian Accounting Standard AAS 27 *Local Governments* (albeit now superseded) paragraph 15, which stated:

Local governments may be subject to detailed financial reporting requirements set out in legislation. In addition, some users of local government financial reports, such as councillors and regulators, may impose requirements for reporting of information about particular transactions or Funds of the local government, or for reporting of detailed information demonstrating the compliance of the local government with particular legislation. To the extent that these requirements differ from the requirements of this Standard, the foregoing requirements would apply in addition to, not in lieu of, the requirements of this Standard.

**Specific Matter for Comment 6**

Do you agree with:

- (a) The factors identified for consideration when deciding whether to present service performance information as part of a report that includes the financial statements or in a separately issued report (see paragraphs 41 to 42); and
- (b) The additional information to present when reporting service performance information in a separately issued report (see paragraph 43)?

If not how would you modify them?

SMC 6(a)

The AASB agrees with the factors identified for consideration when deciding whether to present service performance information as part of a report that includes the financial statements or in a separately issued report.

The AASB notes there is an apparent assumption made in paragraph 41(c) of ED 54 that when service performance information is provided in the same report as the financial statements it will cost more than if the information were provided in a separate report. However, it is not evident why this assumption is made. The AASB recommends that if there is evidence supporting this assumption, it be explained in the Basis for Conclusions.

SMC 6(b)

The AASB agrees with this additional information and is unaware of anything else that should be presented if the service performance information and financial statements are presented separately. However, the AASB suggests that the IPSASB provide an explanation in the Basis for Conclusions of the differences from the corresponding requirements in paragraph 63 of IPSAS 1 *Presentation of Financial Statements*.

**Specific Matter for Comment 7**

Do you agree with the ED's proposed approach to presentation of service performance information within a report, which:

- (a) Provides scope for entities or jurisdictions to decide how to present the information, applying the presentation principles in the ED and further considerations applicable to this decision, and
- (b) Does not specify one particular style of presentation such as, for example, a statement of service performance?

If not how would you modify this approach?

SMC 7(a)

The AASB agrees with the proposed approach for presentation of service performance information in that the approach provides scope for entities or jurisdictions to decide how best to present that information. However, the AASB queries the use of the term 'important services' in paragraph 46 of ED 54 as no context or definition of 'important' is provided or broadly adopted within the public sector. If an entity is to identify its 'important services', consistency would be promoted through guidance on how it is to determine which of its services are important and which are not. The AASB recommends that the term 'important services' be amended to something along the lines of 'services that are key in achieving or delivering an entity's objectives'.

SMC 7(b)

The AASB agrees that the RPG should not specify one particular style of presentation as it is likely to be the type of service provided that will determine how best to present the service performance information relating to that service.

**Specific Matter for Comment 8**

Do you agree with the ED's identification of service performance information that:

- (a) Should be "displayed", where information selected for display should communicate the key messages in a general purpose financial report, (see paragraphs 50 to 51);
- (b) Should be disclosed as part of narrative discussion and analysis (see paragraphs 70 to 77); and
- (c) Should be considered for disclosure as part of the basis of the service performance information reported (see paragraph 80).

If not, how would you modify the ED's identification of information for display and for disclosure?

SMC 8(a)

The AASB agrees with the information that should be displayed as proposed in ED 54 paragraphs 50-51.

SMC 8(b)

Subject to the AASB's comments in response to SMC 1 above about outcomes and disaggregation of costs between direct and indirect costs, the AASB generally agrees with the service performance information that should be disclosed as part of a narrative discussion and analysis. The AASB suggests that the RPG clarify that this list is not exhaustive and there may be other information that could be included to help provide an overview of service performance results (having regard to any concerns about 'disclosure overload'). The RPG should provide more clarity around the boundary of any risk trade-off discussion (see paragraph 76 of ED 54) – for example, the type of information that is expected to be disclosed. The AASB thinks risk trade-off disclosures are complex and potentially burdensome if left too broad.

SMC 8(c)

The AASB considers that the information listed in paragraph 80 of the ED should be disclosed, not just considered for disclosure, but, as noted in AASB response to SMC 8(b) immediately above, preparers would need to be conscious not to provide so much detail that it clutters the service performance information being provided.

### **Specific Matter for Comment 9**

Do you agree with:

- (a) The ED's approach of providing principles and guidance on the identification of the type of performance indicators that entities present, rather than requiring entities to report on particular types of performance indicators, for example outcomes or outputs; and
- (b) The guidance and principles that the ED provides with respect to choice of performance indicators?

If not, how would you modify the description of performance indicators that should be presented and/or the guidance on selection of performance indicators?

The AASB responses to SMC 9(a) and (b) below are made subject to its comments in the fifth paragraph of its response to SMC 2.

#### SMC 9(a)

The AASB agrees with the approach of providing principles and guidance on the identification of types of performance indicators, rather than requiring entities to report on particular types of performance indicators. However, the last sentence of paragraph 22 of the ED implies that a qualitative discussion should only be provided where service performance cannot be meaningfully represented through quantitative and qualitative measures. Consistent with its comment in the fifth paragraph of its response to SMC 1 above (including footnote 1 of that response) the AASB considers qualitative descriptions could usefully complement quantitative and qualitative measures. In relation to quantitative measures the AASB suggests that paragraph 22 could be amended to suggest that proxy measures (indirect measures) of performance might be suitable where more direct outcome measures are unable to be identified or are too costly to obtain.

The AASB also sees some merit in the examples (e.g. in paragraph 23 of the ED) being amended to deal with some of the more challenging measurement issues. Therefore, the AASB suggests, for example, that paragraph 23 of the ED be extended along the lines of 'alternatively, a national government may set an objective of decreasing the incidence of measles by X% by 20yy'.<sup>3</sup>

In addition, the AASB notes that the ED states that only output performance indicators should be reported and that outcome performance indicators are only encouraged to be reported. As noted in the AASB's response to SMC 1 (see subparagraph (b)), the AASB disagrees that outcome performance indicators should be accorded a lower emphasis than output performance indicators.

#### SMC 9(b)

The AASB generally agrees with the guidance and principles that the ED provides with respect to choice of performance indicators. However, as noted in the AASB's comments

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3 In this case, if a direct measure is not yet available, a proxy measure may be the percentage of infants that have received a vaccination for measles has increased by Y%.

to SMC 1 (and SMC 9(a)) the AASB disagrees that an entity should only be encouraged to display information about its intended outcomes and its achievements with respect to those outcomes (paragraph 55 of the ED), as the AASB believes information about intended outcomes and achievements/outputs are both relevant components of service performance information. Entities seek funds based on their plans, thus their plans and achievements against those plans are vital information for maintaining public trust. Accordingly, the AASB is of the view that they should both be mandated rather than encouraged. Although the AASB understands that outcomes can be difficult to quantify, the AASB thinks that the RPG should accord information about outcomes at least the same level of importance as information about outputs. Therefore, where an entity makes its intended outcomes public, it should display information about its achievements with respect to those outcomes.