



<b>Project:</b>	<b>Service Performance Reporting</b>	<b>Meeting:</b>	May 2023 (M195)
<b>Topic:</b>	<b>Implications of the Pervasive Issues</b>	<b>Agenda Item:</b>	4.2
		<b>Date:</b>	18 April 2023
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Project planning

## Objective

1. The objective of this paper is for the Board to consider the implications of the project's Pervasive Issues and **decide**:
  - (a) whether to make working assumptions and, if so, what **working assumptions** to make; and
  - (b) consequently, the **implications for the Project Plan**.

The staff recommendations relating to (a) provide input to the staff recommendations for the project's baseline, which is the main objective of Agenda Paper 4.3.

## Structure

2. The Tables in paragraph 15 of Agenda Paper 4.1 summarise the staff recommendations from this Agenda Paper and Agenda Paper 4.3 followed by the Questions for the Board about the staff recommendations.
3. The remainder of this Paper is structured as follows:
  - (a) Introduction (paragraphs 4 and 5)
  - (b) Analysis of the Pervasive Issues (paragraphs 6 to 55)
  - (c) Summary of staff recommendations (paragraphs 56 and 57 and related Tables)
  - (d) Next steps (paragraph 58)
  - (e) Appendices:
    - Appendix A: Arguments for and against the AASB being the body to specify a service performance reporting pronouncement
    - Appendix B: Relationship of the Service Performance Reporting project to the Private Sector NFP Financial Reporting Framework project
    - Appendix C: Responses to ED 270 and ITC 46 on whether public sector and/or private sector NFPs should be subject to a service performance reporting pronouncement
    - Appendix D: Arguments for and against adopting an 'undue cost or effort' relief criterion in a service performance reporting pronouncement
    - Appendix E: Responses to ED 270 on whether a service performance reporting pronouncement should be mandatory or voluntary

## Introduction

4. Following the Board's discussion at its December 2022 meeting, the Pervasive Issues discussed in this Paper are:

- (a) Issue A: whether the AASB is a proper and preferred body to determine a service performance reporting pronouncement;
- (b) Issue B: the relationship of service performance information to general purpose financial statements/reports (GPFS/GPFR), and assurance implications;
- (c) Issue C: the relationship of the Service Performance Reporting project to the Sustainability Reporting, Management Commentary, Not-for-Profit (NFP) Financial Reporting Framework and NFP Conceptual Framework projects;
- (d) Issue D: the types of entities that should be subject to a service performance reporting pronouncement – public sector and/or private sector NFPs;
- (e) Issue E: whether differential reporting principles need to be applied, to reflect the capacities of different Tiers of NFPs (particularly for Tier 2 and the proposed Tier 3 NFPs);
- (f) Issue F: whether a service performance reporting pronouncement should be mandatory or voluntary;
- (g) Issue G: the notion of 'service'; and
- (h) Issue H: what the Board's next due process document should be.

These Pervasive Issues could have implications for the selection of the project's baseline and the Project Plan.

5. This Paper analyses each of these Pervasive Issues in turn. In doing so, it provides, where relevant:

- (a) a brief description of the issue;
- (b) arguments for and against the main alternative working assumptions that the Board could make;
- (c) a staff recommendation of what, if any, working assumption should be made at this stage by the Board;<sup>1</sup> and
- (d) a staff recommendation for the content of the Project Plan.<sup>2</sup>

## Analysis of the Pervasive Issues

### ISSUE A: The AASB's role

6. This issue is fundamental to whether the AASB should undertake the Service Performance Reporting project.<sup>3</sup> Because the issue was, in substance, resolved when the Board decided to reactivate the project after considering respondents' comments on Invitation to Comment

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1 The staff view is that there is an insufficient basis for making working assumptions on some of the Pervasive Issues until further work is undertaken (including through outreach to stakeholders, other evidence-gathering activities and an updated literature review). As reflected in the staff recommendations on those issues, the level of analysis needed is beyond what staff judge to be reasonably expected at the project planning stage. It is sufficient that the Project Plan note the work to be undertaken in resolving the issues. Even for those Pervasive Issues for which staff have recommended working assumptions, further analysis will be needed before 'preliminary views' can be formed. Staff think the recommended working assumptions will assist in providing a sound starting point and focus for the project.

2 Recommendations about the content of the Project Plan are only preliminary, as groundwork for more detailed work to be undertaken in drafting the Project Plan in due course.

3 The issue has some relationship to the question of the relationship of service performance information to GPFS/GPFR, given that the AASB's role includes matters relating to GPFS/GPFR (see paragraph 11 of [AASB Not-for-Profit Entity Standard-Setting Framework](#) (July 2021), which states that "The AASB sets Standards for general purpose financial statements"). This related GPFS/GPFR question is addressed more fully as Pervasive Issue B in paragraphs 9 to 13 and Pervasive Issue C3 in paragraph 21 to 25 below.

[ITC 46 AASB Agenda Consultation 2022-2026](#), it is not considered in the body of this Paper in detail. However, for completeness and as a record, Appendix A notes some arguments for and against the AASB addressing service performance reporting.

#### *Staff recommended working assumption*

7. Based on the discussion in Appendix A, staff recommend the Board make a working assumption that the AASB is a suitable body to produce a comprehensive principles-based pronouncement on service performance reporting. In implementing that working assumption, the Board should play a leading role in collaborating with other regulators and relevant stakeholders.

#### *Staff recommended content of the Project Plan*

8. Consistent with the [AASB's Australian Financial Reporting Framework – NFP Private Sector Project Plan](#) (Agenda Paper 5.1 of the AASB November 2019 meeting) and based on comments in the ACNC Legislative Review (noted in paragraph A3(f) in Appendix A of this Paper), staff recommend the AASB's Service Performance Reporting Project Plan contemplates the AASB continuing to consult and collaborate with relevant regulators.<sup>4</sup> Relevant regulators include those that have issued mandatory or voluntary service performance reporting (or other related) frameworks (including, for example, the ACNC's Annual Information Statements requirements and the Productivity Commission's Report on Government Services [RoGS] framework). Before producing any final pronouncement for public consultation, targeted outreach, including consultation with regulators and other stakeholders through a draft of the next due process document,<sup>5</sup> could help identify and remove any duplication across the various frameworks.

#### ISSUE B: Relationship of service performance information to GPFS/GPFR, and assurance implications

9. This issue focuses on the questions of:
  - (a) the relationship of service performance information to GPFS/GPFR<sup>6</sup> (the primary domain of the AASB, based on the ASIC Act, the AASB's [Framework for the Preparation and Presentation of Financial Statements](#) and the [AASB Not-for-Profit Entity Standard-Setting Framework](#));<sup>7</sup> and
  - (b) the possible consequences of the view reached on (a), including whether there are any assurance/assurability implications and, if so:

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4 The collaboration could include the AASB participating in any consultation initiated as part of the Productivity Commission's Philanthropy Enquiry, which will, among other things, "Examine current barriers to philanthropic giving, including ... The ability of donors to assess and compare charities based on evidence of effectiveness, including through impact evaluations and making comparisons across charities. In doing so, the Commission should consider the work of overseas impact evaluation comparison sites" (item 3(ii) of the [Terms of Reference](#) dated 11 February 2023, with a final report due within 15 months)

5 See the discussion of Pervasive Issue H on the next due process document in paragraphs 50 to 55 below.

6 Based on the terminology used throughout relevant AASB material, a variety of terminology could be used to refer to the document that could house service performance information – including GPFS and GPFR. Sometimes GPFS and GPFR terms are used interchangeably, at other times they are used with different meanings (with GPFS being narrower than GPFR), potentially with scope of assurance implications. [AASB 1057 Application of Australian Accounting Standards](#) defines GPFS as "Financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs." Paragraph 6 of Statement of Accounting Concepts 1 ([SAC 1](#)) defines a GPFR as "a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs". Unless relevant to the discussion, this Paper does not distinguish between the terms even though the IPSASB Conceptual Framework, the IASB (through the Preface) and The Certified Institute of Public Finance and Accountancy's (CIPFA) International Non-Profit Accounting Guidance Exposure Draft 1 (INPAG ED1) make a clear distinction.

7 Arguably, paragraph AusOB3.1 of [Framework for the Preparation and Presentation of Financial Statements](#) already supports the view that service performance information is within the scope of GPFS/GPFR. It states: "In respect of not-for-profit entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows. Users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future. Accordingly, in relation to not-for-profit entities, where pertinent, references in this *Framework* to 'assessing prospects for future net cash inflows' (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in this paragraph." Also, paragraph 1.10 of AASB [Discussion Paper Development of Simplified Accounting Requirements \(Tier 3 Not-for-Profit Private Sector Entities\)](#), issued September 2022 for comment by 31 March 2023, states that: "The Board considers ... [service performance] ... information highly relevant to users of a not-for-profit entity's financial statements ..."

- (i) whether the benefits of assurance (e.g. increased user confidence in the integrity of the information provided, especially in light of 'verifiability' being an enhancing qualitative characteristic of information included in GPFS/GPFR) outweigh the costs (e.g. assurance and other implementation costs); and
- (ii) what involvement should the Auditing and Assurance Standards Board (AUASB) have with the project.

Part (a) of this issue is expected to be addressed together with the NFP Conceptual Framework project (see Pervasive Issue C3 in paragraphs 21 to 25 below), having regard to developments relating to Management Commentary (see Pervasive Issue C1 in paragraphs 15 to 18 below) and its relationship to GPFS/GPFR.<sup>8</sup>

10. In relation to paragraph 9(b), it is notable that the AASB's role is not to determine what information should be subject to assurance but rather to consider the assurability of any information it prescribes to be included in GPFS/GPFR. Despite this, a question that could arise is which assurance standards would be suitable if service performance information is to be assured. For example, the alternatives include:
- (a) the International Auditing and Assurance Standards Board's (IAASB) International Standard on Assurance Engagements [ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#), or AUASB's [ASAE 3000](#) of the same name;
  - (b) the IAASB's International Standards on Audits and Reviews of Historical Financial Information or AUASB's [Australian Auditing Standards](#) (ASAs) relating to the audit of a financial report; or
  - (c) a separate topic-specific assurance pronouncement, drawn from a combination of (a) and (b).

If such a choice needs to be made, a factor that may need to be considered is whether service performance information is regarded as financial or non-financial information or a combination of the two types of information (see paragraph 43 below, which comments on the financial vs non-financial nature of service performance information).

11. Of relevance to that assurance question, it is notable that NZ has a national topic-specific pronouncement NZ AS 1 *The Audit of Service Performance Information*, which drew on the requirements of both types of assurance pronouncements (i.e. the types referred to in paragraph 10(a) and (b) above) in light of the relationship of service performance information to GPFR and the financial vs non-financial nature of the information.<sup>9</sup> Notably, the NZ External Reporting Board's (XRB) [Explanatory Guide A10 Service Performance Reporting – Guidance for](#)

8 [Agenda paper 4](#) for the December 2017 IASB Accounting Standards Advisory Forum (ASAF) meeting, *Wider corporate reporting and the International Accounting Standards Board*, makes the observation that a pronouncement on management commentary falls within the remit of the accounting standard setter. In particular, slide 8 of the presentation states that the IASB “developed the MCPS [Management Commentary Practice Statement] on the basis that management commentary lies within the boundaries of financial reporting, meeting the definition of ‘other financial reporting’ in the *Preface to IFRSs* (paragraph 7).” It continues with “That brings management commentary within the scope of the *Conceptual Framework for Financial Reporting*.” Paragraph 7 of the [Preface to International Financial Reporting Standards](#) (the hyperlink is only available to subscribers), under a section entitled ‘Scope and authority of International Financial Reporting Standards’, states: “The IASB achieves its objectives primarily by developing and publishing IFRSs and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users’ ability to make efficient economic decisions. ...”

9 NZ AS 1 is currently under review through a Consultation Paper and an Exposure Draft. As stated on the [XRB website](#): “In February 2019, the XRB issued NZ AS 1 *The Audit of Service Performance Information* (NZ AS 1). We subsequently deferred the mandatory application date of NZ AS 1 to 1 January 2023 to explore how the standard could be applied in the public sector. We have worked with representatives from the Office of the Auditor-General and other practitioners to develop a standard that can easily be adopted and applied in both the public sector and in the not-for-profit sector. Our exposure draft proposing to revise NZ AS 1 is the result of that review. Proposed changes to the current standard NZ AS 1 include: Alignment with the financial reporting standards, Sector-specific material, Simplified language and use of examples, No added compliance costs.”

entities applying PBE FRS 48 Service Performance Reporting includes a section on 'Preparing for audit and final approval'.

*Staff recommended working assumption*

12. Given the nature of Pervasive Issue B, the staff view is that it would be premature and unnecessary to make a working assumption on the relationship of service performance information to GPFS/GPFR and assurance implications until further work is undertaken. Accordingly, staff recommend the issue be resolved as the project progresses and more insights are gained, in conjunction with the:
  - (a) NFP Conceptual Framework and Management Commentary projects, in addressing the question of the relationship of service performance information to GPFS/GPFR (consistent with the staff recommendation for Pervasive Issue C3 in paragraph 25 below, on the relationship of the Service Performance Reporting project to the NFP Conceptual Framework project); and
  - (b) AUASB, in addressing the question of the relationship of service performance information to assurance/assurability.

*Staff recommended content of the Project Plan*

13. Staff recommend that the Project Plan:
  - (a) outlines the work to be undertaken as part of the Service Performance Reporting project in conjunction with the NFP Conceptual Framework and Management Commentary projects to determine the relationship of service performance information to GPFS/GPFR; and
  - (b) contemplates the AASB working closely with the AUASB as any new proposals are developed to help ensure any potential assurance/assurability issues or concerns are identified and considered contemporaneously, including the nature of any assurance pronouncement that might be warranted.

ISSUE C: Relationship of the Service Performance Reporting project to other AASB projects

14. The relationship between the Service Performance Reporting project and the Sustainability Reporting, Management Commentary, NFP Financial Reporting Framework, and NFP Conceptual Framework projects are considered in paragraph 15 to 25 below.

***Issue C1: Relationship to the Sustainability Reporting and Management Commentary projects***

15. The Sustainability Reporting and Management Commentary projects may overlap somewhat with the Service Performance Reporting project. However, these other projects, neither individually nor together, entirely envelop and comprehensively address service performance reporting issues. Accordingly, the Service Performance Reporting project could be progressed as a separate project, and thereby avoid further delay of the Service Performance Reporting project.
16. This is despite, in relation to the Sustainability Reporting project in particular, the AASB explicitly acknowledging in ITC 46 the link between that project and the Service Performance Reporting project.<sup>10</sup> This acknowledgement was noted by PwC in its submission on ITC 46: "Further, as noted by the AASB in ITC 46 (page 14), service performance reporting and sustainability reporting are potentially closely related and there may be an opportunity to incorporate service performance reporting elements when adapting the global sustainability

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<sup>10</sup> Paragraph 13(a) above also acknowledges a role the Management Commentary project might play in helping resolve Pervasive Issue B on the relationship of service performance information to GPFS/GPFR.

standards for not-for-profit private sector entities."<sup>11</sup> To avoid developing guidance or requirements that would conflict across the projects, it would be necessary for each project to be cognisant of the work in the other projects.

*Staff recommended working assumption*

17. Staff recommend the Board make a working assumption that it is not necessary to delay progress on the Service Performance Reporting project whilst the demarcation between it and the Sustainability Reporting and/or Management Commentary projects is resolved, the relationship between the projects is otherwise clarified, or the Sustainability Reporting and/or Management Commentary projects have been further advanced.<sup>12</sup>

*Staff recommended content of the Project Plan*

18. Staff recommend the Project Plan clarifies that the intent is to avoid developing disclosure requirements or guidance that would conflict with the work being considered by the Sustainability Reporting or Management Commentary projects.<sup>13</sup> To that end, regard should be had to the relationships between the three projects as they progress. Furthermore, staff recommend that the Project Plan outlines a process for monitoring the relationships as the projects progress.

***Issue C2: Relationship to the NFP Financial Reporting Framework project***

19. The AASB's NFP Financial Reporting Framework project<sup>14</sup> aims to develop financial reporting requirements for Tier 3 private sector NFPs<sup>15</sup> that are simpler than requirements applicable to Tiers 1 and 2 NFPs. That project has acknowledged service performance reporting issues relevant to Tier 3 NFPs, but effectively left their consideration to the Service Performance Reporting project.<sup>16</sup> Appendix B of this Paper provides further insights into the relationship between the NFP Financial Reporting Framework project and the Service Performance Reporting project.

*Staff recommended working assumption and content of the Project Plan*

20. Staff recommend that the Board makes a working assumption that accepts the NFP Financial Reporting Framework project's expectation that the work involved in addressing the Tier 3 service performance reporting issues (together with the Tiers 1 and 2 issues) would be

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11 PwC go on to say, when commenting on a Service Performance Reporting project, that "Any work undertaken in relation to this project right now would likely have to be revisited in the light of the sustainability standards and it would therefore not appear to be a good use of resources if this project was picked up again in the short term." In deciding to restart the Service Performance Reporting project, the AASB acknowledged PwC's comment about the link between the two projects, but did not agree with the argument that therefore the Service Performance Reporting project should not be reactivated at this time. In their submissions on ITC 46, KPMG, ACAG and Deakin University Business Reporting Leaders Forum also noted the link between the two projects, and expressed the view that the link should not delay work continuing on the Service Performance Reporting project.

12 See also Pervasive Issue C3 in paragraph 25 below, which indicates that insights might be gained from the Management Commentary project (and the NFP Conceptual Framework project) into Pervasive Issue B on the relationship of service performance information to GPFS/GPFR.

13 This clarification in the Project Plan would be consistent with the staff recommendation for Pervasive Issue G (discussed in paragraphs 42 to 49 below) that the Service Performance Reporting project should focus on 'service' performance and not other aspects of performance.

14 The Board's review of the Australian financial reporting framework is being conducted in phases. Consequently, a project considering the appropriateness of the existing reporting framework for public sector entities is being conducted separately on a different timeline to the timeline for private sector NFPs. Any interaction between these phases of the project and service performance reporting including differential reporting requirements will need to be monitored and considered as both projects progress. It is also notable that IPSASB added differential reporting to its work program in 2022.

15 The Board is proposing to develop simplified accounting requirements for smaller (Tier 3) NFPs. In deliberating on the issues, the Board has in mind private sector NFPs with revenue between \$500,000 and \$3 million. However, the Board is not intending to specify any explicit reporting thresholds within the Australian Accounting Standards. Instead, it is anticipated that respective legislation or regulation will specify which Tier of GPFS will be required in the future by which entities when preparing financial statements in accordance with Australian Accounting Standards (see paragraphs 1.4 to 1.8 and B3 of [AASB Discussion Paper Development of Simplified Accounting Requirements \(Tier 3 Not-for-Profit Private Sector Entities\)](#) (issued in September 2022 for comment by 31 March 2023). Agenda item 3 for this meeting provides staff preliminary analysis of the feedback received on the Discussion Paper.

16 The February 2021 Board [Agenda Paper 5.4](#) included in Appendix 1 a detailed staff analysis on whether to consult on service performance reporting as part of the NFP Financial Reporting Framework project.

undertaken as part of the Service Performance Reporting project (see also the staff recommendation for the working assumption on Pervasive Issue E regarding differential reporting in paragraph 35 below).<sup>17</sup> Accordingly, staff recommend that this working assumption is reflected in the Project Plan.

***Issue C3: Relationship to the NFP Conceptual Framework project***

21. The Service Performance Reporting project is related to the NFP Conceptual Framework project, mainly because of the arguable lack of clarity in the current NFP Conceptual Framework about the relationship of service performance information to GPFS/GPFR (as evident from the discussion of Pervasive Issue B in paragraph 9(a) above).
22. As part of the NFP Conceptual Framework project, staff recommended comparing AASB and International Public Sector Accounting Standards Board (IPSASB) Conceptual Frameworks in the September 2020 Agenda Paper 10.2. The recommendation made was that, if the AASB identified service performance reporting as a necessary component of general purpose financial reporting by some, or all, NFP entities (as part of another project), then the outcome of Stage 1 of the NFP Conceptual Framework project should acknowledge explicitly the relevance of information about service performance to users of GPFR of NFP entities, and the reasons why it is relevant.
23. Stage 1 of the NFP Conceptual Framework project is focusing on adopting the revised IASB Conceptual Framework by NFPs including alignment of the reporting entity concept (and is therefore related to the NFP Financial Reporting Framework project's Tier 3 Exposure Draft in respect of the removal of the ability to prepare special purpose financial statements). The current expectation/plan is to publish an Exposure Draft relating to this stage concurrently with the NFP Financial Reporting Framework project's Tier 3 Exposure Draft.<sup>18</sup> Therefore, Stage 1 is currently underway (albeit paused since 2020 and recommencing during quarter 2 of 2023), which is timely for the Service Performance Reporting project's question noted as part of Pervasive Issue B about the relationship of service performance information to GPFS/GPFR.
24. The need, scope and timing of any further changes to the NFP Conceptual Framework are to be determined in due course based on further evidence-gathering and outreach. They may address, for example, conceptual guidance (if needed) on how to apply qualitative characteristics to service performance reporting. Those further changes (if needed) are unlikely to occur before a decision needs to be made on the relationship of service performance information to GPFS/GPFR.

***Staff recommended working assumption and content of the Project Plan***

25. Staff recommend the Board makes a working assumption that the NFP Conceptual Framework, together with the Management Commentary and Service Performance Reporting projects, will resolve the GPFS/GPFR issue as the projects progress based on further evidence and outreach. This recommendation is made having regard to the staff recommendation in the September 2020 Agenda Paper 10.2 (referred to in paragraph 22 above) and consistent with the staff recommendation on Pervasive Issue B that it is not necessary to make a working assumption on the relationship of service performance information to GPFS/GPFR at this stage (see paragraph 12(a)).

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<sup>17</sup> Some stakeholders question the extent to which work on service performance reporting should proceed given the work yet to be finalised on the NFP financial reporting framework. In that regard, CA ANZ, in its submission on ITC 46, says "We are aware that at the February 2021 meeting the AASB tentatively decided not to include any service performance reporting proposals in the NFP reporting framework consultation document. We appreciate the AASB recognises that service performance reporting is important but feels that framework issues need to be prioritised which is a decision we support given the importance of framework reform". Despite the comment of CA ANZ, staff do not think the AASB's February 2021 decisions, as recorded in the [minutes](#) of that meeting, should be revisited at this stage as it could cause undue delay in the Service Performance Reporting project. Both projects should proceed, as each can inform the other without hindering each other's progress.

<sup>18</sup> See Agenda Item 3 for this Board meeting, which provides an updated on the NFP Financial Reporting Framework project.

## ISSUE D: Types of entities in scope (public sector and/or private sector NFPs)

26. This issue focuses on the question of whether the project should continue to develop principles for both private and public sector NFPs at the same time; or whether they should be developed sequentially; or whether the project should be limited to one of the sectors and, if so, which one.<sup>19</sup> The issue relates to the overall scope of the project and can be considered within the context of *AASB Due Process Framework for Setting Standards* (which notes, for example, in paragraph 1.2(b) the AASB's policy of "transaction neutrality (modified as necessary)"). How the issue is resolved could substantially affect the size of the project and potentially its direction.
27. Arguments for the AASB addressing each sector separately include that:
- (a) such an approach could better allow for differences between the sectors that might justify different types of service performance reporting principles (or at least requirements or voluntary guidance) being adopted as necessary in each sector;<sup>20</sup>
  - (b) from a practical perspective, service performance reporting has a different history in each sector. For example, accountability may have been the main driver influencing the nature of public sector service performance reporting whereas fund raising may have been the main driver influencing the nature of private sector service performance reporting; and there is a difference between the sectors in terms of their respective levels of experience, skills and resources available to implement service performance reporting. Therefore, each sector is starting from a different base that should be reflected in different service performance reporting pronouncements;
  - (c) it would respond to the views of some stakeholders. For example, HoTARAC's submission on ITC 46 (commenting on whether service performance reporting should be reactivated as a project) says: "The proposals [in ED 270] previously rejected by constituents should be subject to a review, taking into account public sector accountabilities in each jurisdiction. **It may be necessary to have slightly different models for the public and private not-for-profit sectors.**"<sup>21</sup> (emphasis added); and
  - (d) it would be consistent with the approach taken by a number of foreign national jurisdictions that are often used as benchmarks for AASB projects (e.g. Canada, UK and USA), which have separate service performance/narrative reporting pronouncements for public and private sector NFPs (see sections 1 [public sector NFPs] and 2 [private sector NFPs] in the Appendix of Agenda Paper 4.4 of this meeting).
28. Arguments for addressing public sector NFP issues before private sector NFP issues include that such an approach would:
- (a) not unduly delay resolution of public sector reporting issues (which are arguably easier to resolve, by virtue of the history referred to in paragraph 27(b) above) whilst questions surrounding whether a common set of service performance reporting principles can be developed for both sectors are resolved;
  - (b) be able to leverage off the practical experience with service performance reporting in the

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19 It is acknowledged that the question could also be asked as to whether the scope of the project should be expanded to encompass private and public sector for-profit entities. However, this issue is beyond the scope of this Paper, even though it is addressed in agenda paper 13.1 of the AASB's December 2016 meeting (under ED 270 matter for comment 3, which requested constituents' comments on whether the proposals could be applied by for-profit entities at a future date). Once the current NFP Service Performance Reporting project has been finalised, regard could be had to stakeholder views on this issue and, for example, ASIC Regulatory Guide [RG 247](#) *Effective disclosure in an operating and financial review* (August 2019) and any ASX listing rules, in the process of deciding whether consideration should be given to the for-profit question at a future date.

20 A view that there are differences between the sectors is expressed in paragraph G1.5 of The Chartered Institute of Public Finance and Accountancy's (CIPFA) International Financial Reporting for Non-Profit Organisations (IFR4NPO) initiative of the International Non-Profit Accounting Guidance Part 1 Invitation to Comment ([INPAG ED1](#)) (see paragraph 28 in Agenda Paper 4.3, which considers more generally INPAG ED1 as a baseline for the AASB's Service Performance Reporting project).

21 As part of the same comment, HoTARAC went on to say "The project outcome would be a standard. This project may need to be integrated with any climate-related reporting requirements for the public sector." – an issue related to the relationship between the Service Performance Reporting project and the Sustainability Reporting project, the implications of which are discussed in the context of Pervasive Issue C1 in paragraphs 15 to 18 above.

- public sector. Service performance reporting in the public sector is reasonably advanced, with a range of developed frameworks upon which the AASB could base its work (e.g. the Productivity Commission's RoGS; or the Commonwealth Government's *Public Governance, Performance and Accountability Act 2013 and Rule* (PGPA));
- (c) agree with the views of some stakeholders. Some of the comments on ITC 46 were split along public/private-sector lines, and the greatest support came from the public sector. Therefore, the needs of the public sector could be met in a more timely way than if both public and private sector issues are addressed at the same time;
  - (d) address the concern that, although many public sector NFPs are already implementing jurisdiction-based service performance reporting requirements, their frameworks differ, causing inconsistencies mainly across jurisdictions rather than within jurisdictions. The AASB could work in a timely way with regulators within each jurisdiction to facilitate consistent reporting that would facilitate comparative reporting across jurisdictional lines;
  - (e) be consistent with Recommendation 9 of the *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, which, as noted in the footnote to paragraph A3(f) in Appendix A of this Paper, states that:
    - "The Department of Finance should encourage the Australian Accounting Standards Board to develop a standard for performance reporting to assist Commonwealth entities and audit committees to develop and review performance reporting. We also support the Auditing and Assurance Standards Board developing an auditing standard for performance reporting to assist auditors with auditing performance reporting";
  - (f) limit the size of the project, making it more manageable compared with addressing both sectors at the same time; and
  - (g) not preclude, in due course, as a lower priority once principles for service performance reporting by public sector NFPs have been finalised, consideration being given to the suitability of those principles in a private sector NFP context.
29. Arguments for addressing private sector NFP issues before public sector NFP issues include that such an approach would:
- (a) despite public sector service performance reporting frameworks and practices being relatively more established (albeit with some inconsistencies across jurisdictions), meet the greatest urgent need, which is arguably in the private sector;
  - (b) be consistent with the original (2009) stated aim/focus of the Service Performance Reporting project, which was to address the needs of private sector NFPs;
  - (c) not unduly delay resolution of private sector reporting issues whilst questions surrounding whether a common set of service performance reporting principles can be developed for both sectors are resolved;
  - (d) provide a timely opportunity for the AASB to leverage off the work that will arise from The Chartered Institute of Public Finance and Accountancy's (CIPFA) International Financial Reporting for Non-Profit Organisations (IFR4NPO) initiative of the International Non-Profit Accounting Guidance Part 1 Invitation to Comment (INPAG ED1), which reflects the latest international thinking on the NFP private sector issues. It is possible that the international work would progress at a pace that would suit the AASB's future work schedule;
  - (e) limit the size of the project, making it more manageable compared with addressing both sectors at the same time; and
  - (f) not preclude, in due course, as a lower priority once principles for private sector NFPs have been finalised, consideration being given to the suitability of those principles in a public sector NFP context.

30. Arguments for addressing the public and private NFP sectors together include that such an approach would:
- (a) meet the needs of both sectors for better guidance on service performance reporting;
  - (b) be consistent with the view expressed by the majority of respondents to ED 270 that any pronouncement developed from the ED should apply to both public and private sector NFPs (the summary of responses to Question 2 in agenda paper 13.1 of the December 2016 AASB meeting are reproduced in Appendix C of this Paper);
  - (c) be consistent with the AASB's transaction-neutral approach to standard setting referred to in the [AASB Not-for-Profit Entity Standard-Setting Framework](#);
  - (d) directly allow the frameworks and practices in each sector to help inform the other;
  - (e) in keeping with the Protocol for Co-operation between the AASB and NZ XRB, be consistent with the approach taken in NZ, which has a single service performance reporting pronouncement that is applicable to both sectors. (NZ PBE FRS 48 *Service Performance Reporting* applies to public sector public benefit entities (PBEs) who are required by legislation to provide information in respect to service performance information in accordance with generally accepted accounting practice (GAAP)); and
  - (f) encourage the development of principles at a high enough level to be suitable for both sectors. Working on both sectors would not preclude sector-specific guidance being provided. If, as a result, later in the project, the principles are found to be at too high a level and generic, the Board could then decide to develop different public/private-sector streams – perhaps in the form of sector-specific application guidance rather than fundamental differences in principles.

*Staff recommended working assumption*

31. On balance, staff recommend the Board makes a working assumption, at least initially, that a single service performance reporting pronouncement would be developed that is applicable to both sectors. Separate sector-specific application guidance could be contemplated if needed in due course.

*Staff recommended content of the Project Plan*

32. Irrespective of what working assumption is reached, staff recommend the Project Plan contemplates how each sector's existing service performance reporting frameworks and practices could help inform the project. Staff also recommend the Project Plan notes that the working assumption might influence the emphasis placed on the framework(s) in one sector over the framework(s) in the other sector. Furthermore, in addition to updating research into current service performance reporting practices in the Australian NFP private sector<sup>22</sup> and Commonwealth government, to gain further insights into frameworks and experience in the broad Australian public sector, staff recommend the Plan anticipates completion of relevant work already underway, including:
- (a) research of Australian state, territory and local government public sector service performance reporting frameworks; and
  - (b) an investigation into IPSASB Recommended Practice Guide RPG 3 *Reporting Service Performance Information* direct or indirect implementation experience.

ISSUE E: Differential reporting

33. This issue focuses on the question of whether it is necessary to distinguish service performance reporting requirements and/or guidance for the different Tiers of NFPs (i.e. to differentiate between NFPs required or opting to assert compliance with Tier 1 reporting requirements;

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22 [See](#) section 4.9 of Agenda Paper 4.4 in the supplementary folder, which discusses aspects of current practice in Australia.

Tier 2 simplified disclosure requirements available to other NFPs; and the proposed Tier 3 simplified accounting requirements for eligible private sector NFPs).<sup>23</sup> The issue is particularly relevant because, although many respondents to ED 270 raised concerns about applying the proposed mandatory principles to any NFPs, the greatest concerns were expressed in relation to the undue cost or effort the proposals would place on Tier 2 private sector NFPs that are subject to Australian Accounting Standards. Although Tier 3 was not contemplated at the time ED 270 was issued,<sup>24</sup> by extension, this Pervasive Issue D is also relevant to the now AASB-proposed Tier 3 NFPs.

34. The following discussion does not explicitly identify the arguments for and against differential reporting of service performance. That is because, consistent with the observation in paragraph 8 of Agenda Paper 4.1, the issue is expected to depend on the overall approach to specifying the service performance reporting principles, which will not be known until the project is further advanced. For example, based on the comments on ED 270, if the principles were to be expressed at the ED 270 level, differential reporting might be warranted on cost/benefit grounds. However, differential reporting might not be needed to the extent that generic service performance reporting implicitly-scalable principles can be developed. In that regard, it is notable that NZ PBE FRS 48 applies to both Tier 1 and 2 entities, and many other frameworks related to service performance reporting (including INPAG ED1 and RoGS) do not contemplate differential reporting. Even if sufficiently generic and scalable principles are not achievable in an Australian context, an alternative to differential reporting could be developed. For example, one approach that could be explored as part of the project is for the AASB to:
- (a) specify a minimum acceptable level of service performance information that is necessary to meet the needs of external users of service performance information irrespective of the type, size or capability of an NFP;
  - (b) provide application guidance to explain and illustrate how the principles in (a) can be applied to the different types, sizes and capabilities of NFPs;
  - (c) contemplate that, despite best endeavours to express such scalable requirements and associated guidance, the requirements might impose undue cost or effort on some individual NFPs in certain circumstances;
  - (d) as a consequence of (c), contemplate the need to allow an individual NFP to make its own cost/benefit assessment in determining whether to make the disclosure in (a);
  - (e) disallow the kind of relief in (d) to the extent service performance information is measured or otherwise reported internally;
  - (f) require an NFP that determines that any of the specified disclosures would invoke the undue cost or effort criterion in (d) disclose the basis for the decision to not disclose; and
  - (g) if, during the process of developing generic principles, concern remains that valuable service performance information about larger entities would not be disclosed as a consequence of accommodating the limited capacity of a certain cohort of NFPs, maintain a record of that information. That record could then form part of the requirements for larger NFPs, and be the basis for differential reporting/simplified disclosure relief for a certain cohort (such as Tiers 2 and 3 NFPs).

Arguments for and against introducing such an approach as an alternative to blanket differential reporting relief are provided in Appendix D below.

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<sup>23</sup> As noted in the first footnote to paragraph 19 above, IPSASB added differential reporting to its work program in 2022.

<sup>24</sup> As noted in the footnote to paragraph 20 above, some stakeholders also question the extent to which work on service performance reporting should proceed given the work yet to be finalised on the NFP financial reporting framework. However, as also noted in that footnote, there is a view that both projects should proceed, as each can inform the other without hindering each other's progress.

### *Staff recommended working assumption*

35. Staff recommend the Board makes a working assumption that differential reporting will not be needed, at least for Tiers 1 and 2 NFPs, if workable generic and scalable principles or an 'undue cost or effort' criterion can be developed to produce a useful and cost-effective pronouncement. Consistent with the discussion on Pervasive Issue C2 in paragraphs 19 and 20 above, staff recommend that Tier 3 differential reporting issues are considered as the project progresses and more insights are gained.

### *Staff recommended content of the Project Plan*

36. Staff recommend that the Project Plan describes the nature of targeted outreach that would address Tier 2 and 3 NFPs, including the ideas in paragraph 34 above. For example, as contemplated in paragraph 27(h)(ii) of Agenda Paper 7.1 of the Board's December 2022 meeting, research could test different ways of expressing service performance reporting principles and presenting related information with a range of stakeholders (including preparers and users, particularly in the medium-sized category). Staff also recommend that the Project Plan contemplates reassessing the working assumption each time significant project decisions are made.

### ISSUE F: A mandatory or voluntary pronouncement<sup>25</sup>

37. This issue focuses on the question of whether the project should develop service performance reporting requirements or voluntary guidance. The issue could have an impact on the outcome of the project to the extent the development of voluntary guidance would not entail as great a focus on cost/benefit issues by stakeholders, including on the question of what level of relief and entity-specific discretion to allow. This is because, even though the AASB applies equal rigour to the development of mandatory and non-mandatory pronouncements,<sup>26</sup> there is a risk that stakeholders might not have the same focus and thus not inform the Board of issues or take as great an interest in the development of non-mandatory material as they would for mandatory material. The issue is affected by how well service performance reporting principles can be expressed in a generic scalable form, and whether and what kind of limited relief and application guidance would be necessary.
38. Arguments for the AASB developing a voluntary pronouncement include that:
- (a) in their responses to ED 270, only a minority of respondents supported a mandatory pronouncement based on the proposals in ED 270 (a summary of responses to specific matter for comment 9 in agenda paper 13.1 of the December 2016 AASB meeting is reproduced in Appendix E of this Paper). For example, ACNC, a federal regulator of charities representing an important subset of private sector NFPs and with streamlined reporting from some other regulators, indicated a preference for a voluntary framework, particularly if it were based on the proposals in ED 270. Its [submission on ED 270 included the comment](#): "The ACNC does not support ED 270 as a mandatory standard for not-for-profit organisations (NFPs). The ACNC considers that the framework, if mandatory and implemented as currently drafted, would impose unnecessary regulatory burden on not-for-profit organisations. Given the great diversity of the not-for-profit sector, a

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25 Some comments made by respondents to ED 270 on the mandatory vs voluntary issue appear to be closely linked to the question of whether service performance reporting should adopt differential reporting principles, to take account of the different needs and capabilities of larger and smaller NFPs. Despite the interrelatedness of the issues, the issue of differential reporting is discussed as separate Pervasive Issue E in paragraphs 33 to 36 above.

26 The functions of the AASB under section 227 of the *ASIC Act* include the making of mandatory accounting standards under the Corporations Act and formulating accounting standards for other purposes that do not have legal effect under the Corporations Act itself but may be applied or adopted by some other authority. In relation to the latter, paragraph 3.1 of the [AASB Due Process Framework for Setting Standards](#) notes that the AASB might issue what the Due Process Framework refers to as "Reporting Standards" that "address matters integral to financial reporting ...", which "May be mandatory or non-mandatory". Paragraph 7.10 of the Framework goes on to say "The AASB may produce non-authoritative guidance if it considers that doing so would improve financial reporting and follows the same procedures for the development of an authoritative pronouncement. The application of such non-authoritative guidance is then subject to other regulators determining whether its use remains voluntary."

mandatory standard can be expected to disproportionately burden some sub-sectors more than others. The burden is not due simply to increased reporting, but rather to the difficulty, complexity and cost of collecting certain performance information; for example, information on efficiency and effectiveness. The ACNC is concerned that the AASB framework overreaches what is reasonably achievable by certain types of not-for-profit organisations." ACNC's [submission on ITC 46](#) says that "As service performance reporting should continue to be voluntary, the AASB should consider implementing a voluntary framework";

- (b) implementation of a voluntary pronouncement would be expected to occur through the desire of NFPs to attract funds (e.g. private sector NFPs using service performance information prepared in a manner consistent with a generally accepted authoritative but voluntary framework to inform and attract potential donors). Paragraph A2(b) of Appendix A of this Paper provides further consideration in the context of the question of whether the AASB is a suitable/necessary authority to issue a pronouncement on service performance reporting;
- (c) NFPs can be relied on to make their own assessment of stakeholders' information needs and, if they assess that a sufficient number of their potential resource providers or other stakeholders need service performance information, the NFPs could then opt into a voluntary regime; and
- (d) a voluntary pronouncement would be an effective way of introducing consistent service performance reporting concepts into a sector currently faced with significant resource constraints and regulatory change. A post-implementation review of the voluntary pronouncement could be undertaken in the future and used as the basis for ultimately introducing requirements if it is found that the encouragement is ineffective in producing appropriate disclosures.

39. Arguments for the AASB developing mandatory pronouncement include that:

- (a) a review of the literature about the information needs of users reported in AASB [Research Report 14 Literature Review: Service Performance Reporting for Not-for-Profits](#) (February 2020) shows a number of studies found that contributors to private sector NFPs and stakeholders of public sector NFPs prefer service performance information to financial statement information. Although the focus of the studies was not directly on the mandatory vs voluntary issue, given that financial statement information is mandatory, these findings provide some evidence that a mandatory pronouncement on service performance reporting would be expected to contribute even more to satisfying user needs. Furthermore, page 28 of Research Report 14 identifies some US academic research that concludes "that outcome reporting measurement mandates affect the extent of outcome measurement among NFPs, even where resource constraints limited measurement prior to the mandates".<sup>27</sup> In addition, research in the UK found an increase in the reporting of service performance information (goals, objectives, output and efficiency) between 1990 and 2013 was largely due to legislative changes, such as making the UK Charities Statement of Recommended Practice SORP 2, originally published in 1988, mandatory for large UK charities;<sup>28</sup>
- (b) paragraph 30(d) of the [AASB Not-for-Profit Entity Standard-Setting Framework](#) suggests that users require "additional disclosures regarding Australian-specific issues that are not likely to be provided voluntarily". An example given in paragraph 30(d)(ii) of the Framework notes that users of an NFP's financial statements may require non-financial information about accountability and stewardship, such as service performance reporting

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27 Thomson, D. E. (2010). Exploring the role of funders' performance reporting mandates in nonprofit performance measurement. *Nonprofit and Voluntary Sector Quarterly*, 39(4), 611-629.

28 Connolly, C., & Hyndman, N. (2013b). Towards charity accountability: Narrowing the gap between provision and needs? *Public Management Review*, 15(7), 945-968.

- addressing the quality of goods and services produced, and information about outputs and/or outcomes that may be non-financial;
- (c) although only a minority of respondents to ED 270 supported a mandatory pronouncement,<sup>29</sup> their views were based on the specific proposals in ED 270. Amending the proposals to take account of the concerns could produce requirements that overcome the criticisms by expressing scalable principles at a sufficiently high level with, if necessary, appropriately targeted relief (perhaps along the lines of that contemplated in the context of Pervasive Issue E on differential reporting in paragraphs 33 to 36 above);
  - (d) it would better satisfy stakeholders who need decision-useful, relevant and faithfully represented service performance information that is comparable and assurable;<sup>30</sup>
  - (e) in keeping with the [Protocol for Co-operation between the AASB and NZ XRB](#), specifying requirements would be consistent with the approach taken in NZ, which has a mandatory pronouncement in the form of [PBE FRS 48 Service Performance Reporting](#);
  - (f) there is anecdotal evidence that encouragements in accounting standards are questionable in their effectiveness;<sup>31</sup>
  - (g) a mandatory standard would not preclude the inclusion of some voluntary/encouraged components that might be regarded as too onerous to be mandated; and
  - (h) as noted in paragraph 37 above, the development of requirements would be expected to sharpen the focus of stakeholders on the cost/benefit aspects of any proposals. This is because, under a voluntary regime, the cost aspects are not as important because any entity can avoid costs by opting out of the regime unilaterally.

*Staff recommended working assumption*

40. Given the nature of Pervasive Issue F, the staff view is that it would be premature and unnecessary to make a working assumption until further work is undertaken and more insights are gained. This recommendation is based on the presumption that the same level of rigour would be applied throughout the project irrespective of whether a mandatory or voluntary pronouncement is to be issued.

*Staff recommended content of the Project Plan*

41. Staff recommend the Project Plan contemplates a significant amount of targeted consultation with constituents, including field testing of alternative possible requirements/guidance, to fully assess cost/benefit issues.<sup>32</sup> Staff also recommend the Project Plan contemplates exploration of

29 Taking the comments on ED 270 as a whole as summarised in Agenda Paper 13.1 of the December 2016 Board meeting, it is apparent that the greatest concern about a pronouncement being mandatory was from a private sector NFP rather than a public sector NFP perspective – and particularly for private sector Tier 2 NFPs. See also paragraph A2(a)(v) of Appendix A below regarding a minority view expressed about the public sector.

30 In contrast, Hsiao, P.-C.K., Low, M. and Scott, T. (2023) Service performance reporting and principles-based authoritative guidance: an analysis of New Zealand higher education institutions. *Meditari Accountancy Research*, Vol. ahead-of-print No. ahead -of-print. <https://doi.org/10.1108/MEDAR-10-2022-1825> report a conclusion that “The statistical evidence presented shows that high-level principles-based standards do not improve the provision of information that is useful for performance evaluation, though it does encourage provision of more contextualised information.”

31 As noted in [AASB Staff Paper Intangible Assets: Reducing the Financial Statements Information Gap through Improved Disclosures \(March 2022\)](#) there is some evidence to suggest that encouragements in Standards are limited in their effectiveness. In a footnote on page 38, the Staff Paper notes in relation to the effectiveness of encouragements in Standards that “This is a potential area for future research as there has not been much, if any, research into how effective encouragements in accounting standards are. Although there is limited research in terms of accounting standards, Bochkay et al (2021) found some positive effects (i.e. increased voluntary disclosures) arising from the voluntary disclosure standards developed by the Sustainability Accounting Standards Board.” (The reference to Bochkay et al (2021) is a reference to Bochkay K, Hales J and Serafeim G (2021) Disclosure standards and communication norms: Evidence of voluntary disclosure standards as a coordinating device for capital market. SSRN Electronic Journal, <https://doi.org/10.2139/ssrn.3928979>.)

32 See, for example, the research referred to in paragraph 36 above.

possible ways to mitigate concerns about undue costs of a mandatory pronouncement, such as by providing relief (or combination thereof) through:

- (a) differential reporting requirements, potentially providing blanket relief to Tiers 2 and/or 3 NFPs (although see the staff recommended working assumption for Pervasive Issue E in paragraph 35 above);
- (b) entity-specific relief if the entity is able to satisfy certain criteria, such as a 'relief due to undue cost or effort' criterion, to justify non-compliance (see paragraph 34 above and Appendix D below);
- (c) phased adoption, on whatever basis is determined to be most suitable in light of the challenges faced by the sector; and
- (d) an extended transition period with early adoption allowed (e.g. NZ PBE FRS 48 provided a total of five year lead time).<sup>33</sup>

#### ISSUE G: The notion of 'service'

42. This issue relates to the question of the meaning of the terms 'service' and 'service performance' and the nature of information that pertains thereto.
43. As noted in paragraph 18(f) of Agenda Paper 7.1 of the Board's December 2022 meeting, an original working assumption upon which ED 270 was based was that the information to be reported might comprise financial and non-financial information, whether quantitative or qualitative/narrative. The focus was on 'an entity's non-financial principal objectives and their financial implications' rather than simply 'non-financial information'. Paragraph 18(h) of the same agenda paper went on to note that, given the potential breadth of service performance information, a constraining principle along the lines of 'service performance information that relates to an entity's principal objectives' should be adopted. Accordingly, performance relating to non-service aspects of an entity's objectives (such as environmental performance,<sup>34</sup> legal compliance, and occupational health and safety (OH&S) performance) was to be excluded.
44. Within this context, a question arises as to what other aspects of an entity's performance should be excluded from the project by virtue of the term 'service'. For example, the question arises of whether an entity's fundraising performance (which could be measured, for example, by a financial ratio of fundraising costs to total funds raised) or its performance in managing overheads (which could be measured, for example, by a financial ratio of 'management expenses to total expenses' or 'management expenses to total revenue') should be addressed as part of the Service Performance Reporting project.
45. Some might even argue that the focus of the project should be reoriented to those aspects of performance, to meet the needs of stakeholders interested in the appropriateness of NFP entities' use of funds. Indeed, those stakeholders primarily care about or are committed to the entity's mission and therefore want to ensure the maximum amount of their contributions are directly allocated to the mission rather than, for example, fundraising costs (including marketing costs) and overheads/internal management. Therefore, rather than the AASB focusing on 'service' performance, the focus could be on presenting more relevant financial information, which could take the form of prescribed financial ratios (e.g. management expense ratios).<sup>35</sup>

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33 The NZ XRB did not originally plan for such an extended transition period. The initial duration was about four years, but it was postponed by a year due to the COVID-19 pandemic.

34 Environmental performance is related to issues being addressed in the AASB's Sustainability Reporting project, the relationship of which to the Service Performance Reporting project is discussed as Pervasive Issue C1 in paragraphs 15 to 18 above.

35 As stated in its [Agenda Consultation Feedback Statement](#), in June 2022 the Board considered its responses to the mixed feedback on ITC 46 and decided to remove the inactive Definition of Fundraising project from its work program. Most of the respondents to this question in ITC 46 were of the view that the Board should not retain this project since 'fundraising' is better defined by other regulators, such as ACNC. They noted that, in light of the then recent announcement by the Federal Government on reviewing the national fundraising framework, the Board could monitor the review and, in the future, consider whether any work is necessary. For more details see [Agenda Paper 3.2](#) of the May 2022 Board meeting. See also the end of the footnote to paragraph 49(b) below.

46. Arguments for expanding or focusing the scope of the project on the matters discussed in paragraphs 44 and 45 include that it would:
- (a) be consistent with the broad scope of INPAG ED1, which is proposing principles for the reporting of performance information, not just service performance information. Also, section 8 of the UK Charities SORP includes some guidance on the accounting for costs shared between fundraising and charities activities;
  - (b) be more likely to meet the greater and more urgent need of a broad range of stakeholders based on anecdotal evidence; and
  - (c) address the practice of NFPs that are already publicising statistics like how, on average, each donated dollar is used – often in marketing/promotional material. There is an urgent need for such reported information to be standardised, assurable and prepared under a consistent framework based on robust principles.
47. Arguments against expanding or focusing the scope of the project to accommodate the matters discussed in paragraphs 44 and 45 include that:
- (a) expanding the scope to performance reporting, or focusing the scope on aspects of performance other than service, could significantly delay the project;
  - (b) developing standards on such matters would be difficult, given the need to define, for example, 'fundraising' and 'fundraising costs';
  - (c) the issues would be more appropriately dealt with as part of a Presentation of Financial Statements project – which could address, for example, the presentation or disclosure of the nature of expenses such as fundraising costs. Of note in that regard, the IASB is undertaking work on Management Performance Measures (MPM) as part of its [Primary Financial Statements project](#).<sup>36</sup> That project includes a focus on disaggregation in the statement of profit and loss and reconciliations between some management-defined performance measures and subtotals specified by IFRS Standards;
  - (d) the issues are not matters that the AASB should deal with directly. This argument is consistent with the way similar issues have been dealt with in the past by the AASB. In particular, paragraph BC191 of the Basis for Conclusions to [AASB 1056 Superannuation Entities](#) states: "The AASB considered whether a superannuation entity should be required to disclose a management expense ratio (MER) for the entity as a whole. The AASB concluded that a better focus of Australian Accounting Standards is to facilitate the provision of information from which users can calculate their own ratios for their particular needs. The AASB also noted MERs of superannuation entities are publicly available from other sources; and other investment-type entities are not required to disclose MERs under Australian Accounting Standards";<sup>37</sup>
  - (e) a reoriented project that would go as far as to prescribe particular ratios would arguably go beyond the project's objective of providing information that enables users to assess performance – getting into analysis, which, as implied in paragraph BC191 of the Basis for Conclusions accompanying AASB 1056, would be at best unnecessary and at worst inappropriate;
  - (f) as noted in the footnote to paragraph 45 above, the Board recently considered the merits of pursuing a related project – Definition of Fundraising. Based on feedback received in relation to section 2.3 'Inactive domestic projects' of [ITC 46](#), the [minutes](#) of agenda item 8

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36 See IASB [ED/2019/7 General Presentation and Disclosures](#) (issued December 2019 for comment by 30 September 2020). It proposed defining MPM as subtotals of income and expenses that are used in public communications outside financial statements; complement totals or subtotals specified by IFRS Standards; and communicate to users of financial statements management's view of an aspect of an entity's financial performance. The IASB is in the process of reviewing responses to the ED and the results of field testing possible disclosures.

37 A Post Implementation Review of AASB 1056 is due to start in 2023 and the issue of management fees, generally expressed as a ratio of assets under management, might be raised in that context.

of the Board's 22-23 June 2022 meeting record the Board's decision to remove the project from the work program (summarised in [Feedback Statement](#) AASB Agenda Consultation 2022-2026); and

- (g) ED 270 and NZ PBE FRS 48 focus on the notion of 'service', which excludes, for example, fundraising performance reporting.

*Staff recommended working assumption*

48. On balance, staff recommend that the Board makes a working assumption that the project would focus on 'service' and thereby exclude 'fundraising', 'management expenses' and other aspects of performance that are not 'service'.

*Staff recommended content of the Project Plan*

49. Staff recommend the Plan contemplates work being undertaken to:
- (a) circumscribe the nature of 'service', using the chosen baseline (which is the subject of Agenda Paper 4.3 of this meeting) as the benchmark; and
  - (b) separately from the Service Performance Reporting project, monitor the IASB Primary Financial Statements project and the related work of others,<sup>38</sup> and acknowledge that, in the future, consideration might need to be given to the implications in an NFP context depending on an assessment of the needs of users at the time.

ISSUE H: The next due process document

50. This issue addresses the question of what the next due process document about service performance reporting published by the AASB should be. In particular, it addresses whether the AASB should initially work towards a Research Report, Discussion Paper, Invitation to Comment, Exposure Draft, Re-exposure Draft or Standard.
51. Given that ED 270 has previously been published, it could be argued that the next due process document should be either a re-exposure or even a final pronouncement. The latter view could be the result of applying the criteria for re-exposure described in paragraph 7.7.1 of the AASB's [Due Process Framework for Standard Setting](#).<sup>39</sup> However, given the time since ED 270 was issued, the degree to which the proposals in ED 270 might change (based on the comments on ED 270 and insights gained subsequently), and because ED 270 did not conclude on the question of whether the proposals should be made mandatory,<sup>40</sup> staff would expect that any

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38 In addition to INPAG ED1 see, for example, the [report](#) by Social Ventures Australia and the Centre for Social Impact (2022) *Paying what it takes: funding indirect cost to create long-term impact*. Also, it is notable that the ACNC Legislative Review Panel (see page 59 of [Strengthening for Purpose: Australian Charities and Not-for-Profits Commission: Legislation Review 2018](#)) suggests, but not at the level of a formal recommendation, "...further work be undertaken by the ACNC, AASB and AUASB, in consultation with the sector and other stakeholders, to consider further changes to the financial reporting framework for registered entities. Those changes could include but are not limited to: ... potential reporting in relation to fundraising and administration costs; ... Any proposed changes which would impose a further regulatory burden on registered entities will need to be carefully assessed having regard to the three principles of regulatory necessity, reflecting risk and proportionate regulation." It is also notable that a 16 February 2023 [announcement](#) noted that Australian, state and territory treasurers have agreed to a set of nationally consistent fundraising principles. The announcement notes that "Each participating jurisdiction will release an implementation plan by July 2023 explaining how it will give effect to the principles through regulatory changes or legislation."

39 Paragraph 7.7.1 of the Due Process Framework states:

- "(a) In considering whether there is a need for re-exposure, the AASB uses criteria similar to the IASB:
- (i) extent of new substantive issues not considered during the initial consultation (eg new requirements, terminology and/or examples);
  - (ii) extent of change to original proposals (structural changes excluded);
  - (iii) extent of input from interested parties and whether any key stakeholders have not provided input; and
  - (iv) any new evidence on the extent and nature of the issue being addressed.
- (b) The more extensive and fundamental the changes from the ED and current practice, the more likely the proposals should be re-exposed, albeit with a shortened exposure period. However, the AASB also considers the costs of delaying improvements to financial reporting and the urgency of the need for change.
- (c) More weight is given to changes in recognition and measurement requirements than to disclosures in assessing whether to re-expose."

40 As evident from the fact that specific matter for comment 9 of ED 270 asked constituents' opinions on whether the proposals should be made mandatory.

revised pronouncement would, at a minimum, need to be re-exposed, particularly if it were to be mandatory.

52. As noted in paragraph 50 above, an alternative approach to re-exposure (or going straight to a final pronouncement) would be to develop a Research Report, Discussion Paper or an Invitation to Comment as the next due process document.<sup>41</sup> The different types of due process documents place decreasing degrees of emphasis on the level, length and type of consultation, and depend on the stage of thinking the Board has reached on the relevant issues. For example, a Research Report (or perhaps a Discussion Paper) might be expected to be the next due process document if a 'green fields' approach were to be adopted. Accordingly, the type of document chosen would depend on assessing the nature of consultation warranted in the circumstances. One way of setting up for effective public formal consultation through a suitable due process document would be for staff to engage through targeted outreach with respondents to ED 270 (and other interested stakeholders) as the project progresses. This could have the advantage of more timely finalisation of the due process document and the project as a whole.

#### *Staff recommended working assumption*

53. Given the nature of Pervasive Issue H, the staff view is that it would be premature to make a working assumption until the nature and the level of development of the Board's thinking and any proposals have been determined. Accordingly, staff recommend that it is not necessary for the Board to make a working assumption on this issue until at least a decision is made on the project's baseline (see Agenda Paper 4.3). It would be expected that, unless a pure 'green fields' baseline is adopted, a due process document in the form of a Research Report would not be warranted, even though it is expected that staff will continue to gather further evidence through, for example, the update of a literature review. Staff recommend deferring a decision on the next due process document if a baseline other than 'green fields' is adopted until sufficient progress has been made and insights are gained from targeted outreach (similar to the approach taken with Tier 3 progressing from Discussion Paper to Exposure Draft). At that time, staff recommend that regard be given to stakeholders' expectations and whether a Discussion Paper, Invitation to Comment or Exposure Draft would be appropriate.

#### *Staff recommended content of the Project Plan*

54. If the AASB were to make a working assumption about the next due process document before the Project Plan is finalised, staff recommend that the Plan describes the work needed to produce such a document. Depending on where that document fits in the overall due process, the work required to produce any subsequent due process documents could also be described in the Plan, although much of that work would depend on the outcome of the due process document that is nominated to be first.
55. Reflecting the staff recommendation to make no working assumption on this issue yet would have a downside of making the Project Plan less precise. However, it has the advantage of allowing the Board time to become better informed of the type and level of consultation that will be warranted. To reflect this approach, staff recommend that the Plan identify the work needed to be undertaken before the question of the next due process document is to be considered by the Board, including the level of stakeholder engagement.

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41 According to paragraph 6.4 of the AASB's [Due Process Framework for Standard Setting](#):

"Discussion Papers and Consultation Papers – Discussion Papers (DP) and Consultation Papers (CP) usually outline a wide range of possible accounting policies on a particular topic. They are typically used to refine the number of options being considered as the solution to an issue. Discussion Papers and Consultation Papers may be issued by the AASB, the IASB, the IPSASB or other standard-setters. The AASB may choose to issue international documents in Australia for comment, sometimes with an Australian Preface added to explain the context"

"Invitations to Comment – Invitations to Comment (ITC) precede or accompany a Discussion Paper or Exposure Draft and set out matters on which the AASB is seeking feedback".

## Summary of staff recommendations

56. Given the number of Pervasive Issues that are relatively superficial or for which staff recommend no working assumptions are made at this stage, the Pervasive Issues expected to have the greatest influence on a decision in selecting the project baseline (the subject of Agenda Paper 4.3) are:
- (a) Pervasive Issue D on whether the project should address public sector and/or private sector NFPs; and
  - (b) Pervasive Issue G on whether the project should focus on 'service' and/or other aspects of performance).

Pervasive Issue E on differential reporting might also have an influence, particularly in relation to Tier 3 NFPs. All the Pervasive Issues are expected to have implications for the content of the Project Plan, even if some are superficial or no working assumption is made.

57. Based on the above discussion and analysis, the following Table:
- (a) lists each Pervasive Issue in summary form – Column 1;
  - (b) summarises the staff recommendation on whether and if so what working assumption would be appropriate for each Pervasive Issue – Column 2; and
  - (c) summarises how each staff recommendation in Column 2 could influence the content of the Project Plan – Column 3.<sup>42</sup>

As noted in paragraph **Error! Reference source not found.** above, 'Questions for the Board' about the staff recommendations are provided in the Cover Memo Agenda Paper 4.1.

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<sup>42</sup> In addition to what is included in column 3, the Project Plan could anticipate all the working assumptions being subject to review/reconsideration at discrete points during the project as issues become clearer.

**Table:** Summary of staff recommendations relating to each Pervasive Issue

Pervasive Issue	Staff recommendations for the Pervasive Issue	Staff recommendations for the Project Plan
A: AASB's role	<b>Working assumption:</b> AASB should undertake the project and play a leading role in collaborating with other regulators and relevant stakeholders.	Describe how the AASB will undertake targeted outreach, including consultation through a draft of the next due process document (see Pervasive Issue H) with other regulators (including ACNC and regulators in the public sector) and relevant stakeholders to help identify and remove unnecessary duplication.
B: Relationship of service performance information to GPFS/GPFR and assurance	<b>No need to make a working assumption</b> at this stage. Instead, resolve the issue as the project progresses and more insights are gained, in conjunction with the: (a) NFP Conceptual Framework and Management Commentary projects, in addressing the question of the relationship of service performance information to GPFS/GPFR (see also Pervasive Issue C); and (b) AUASB, in addressing the question of the relationship of service performance information to assurance/assurability.	(a) Outline the work to be undertaken to determine the relationship of service performance information to GPFS/GPFR; and (b) Contemplate the AASB working closely with the AUASB as any new proposals are developed.
C: Relationship of the Service Performance Reporting (SPR) project to the Sustainability Reporting, Management Commentary, NFP Financial Reporting Framework, and NFP Conceptual Framework projects	<b>Working assumptions:</b> (a) Consistent with Pervasive Issue B, address the question of the relationship of service performance information to GPFS/GPFR in conjunction with the NFP Conceptual Framework and Management Commentary projects; and (b) Except as noted in (a), proceed separately with each project, keeping each other informed (and thereby avoid further delay in addressing SPR).	(a) Describe how the SPR project will be kept informed of progress in related projects; (b) Clarify that the intent is to avoid developing disclosure requirements or guidance that would conflict with the work being considered by the Sustainability Reporting or Management Commentary projects; and (c) Consistent with the project work anticipated for Pervasive Issue B, outline the work to be undertaken to determine the relationship of service performance information to GPFS/GPFR in conjunction with the NFP Conceptual Framework and Management Commentary projects.
D: Scope of the SPR project: public sector and/or private sector NFPs	<b>Working assumption:</b> On balance, at least initially, pursue a single SPR pronouncement that is applicable to both sectors. Consider the need for separate sector-specific application guidance in due course. (This is despite some strong arguments in favour of addressing the sectors separately, or public or private sector issues first.)	(a) Describe how the project will take account of the needs of both sectors, with the experience/ frameworks in each sector informing considerations in relation to the other; (b) Anticipate research into Australian state, territory and local government public sector SPR frameworks, and updating consideration of current practice and NFP private sector and Commonwealth government frameworks; and (c) Anticipate finalising an investigation into whether there is any direct or indirect implementation experience with IPSASB RPG 3.
E: Differential reporting for Tiers 1, 2 & 3	(a) <b>Working assumption:</b> Differential reporting will not be needed for Tiers 1 & 2 if workable generic and scalable principles or an 'undue cost or effort' criterion can be developed; and (b) <b>No need to make a working assumption</b> about Tier 3 differential reporting issues at this stage. Instead, resolve the issues as the project progresses and more insights are gained.	(a) Describe the nature of targeted outreach that would address Tiers 2 and 3 NFPs; (b) Anticipate the testing of different ways of expressing generic scalable SPR principles with stakeholders; and (c) Anticipate the possible need to consider relief based on an 'undue cost or effort' criterion, depending on whether generic scalable SPR principles can be developed.
F: Status of the resulting SPR pronouncement: mandatory vs voluntary	<b>No need to make a working assumption</b> at this stage. Instead, resolve the issue as the project progresses and more insights are gained. Apply the same level of rigour throughout the project irrespective of whether a mandatory or voluntary pronouncement is to be issued.	Contemplate a significant amount of targeted consultation including field testing of alternative possible requirements/ guidance to fully assess cost/benefit issues. The Plan should also note the Board's intention to explore possible ways to mitigate concerns about undue costs, such as by providing relief (or combination thereof) through: (a) Differential reporting requirements, potentially providing blanket relief to Tiers 2 and/or 3 NFPs (although, see Pervasive Issue E); (b) entity-specific relief if the entity is able to satisfy certain criteria, such as a 'relief due to undue cost or effort' criterion, to justify non-compliance (also see Pervasive Issue E); (c) phased adoption, on whatever basis is determined to be most suitable in light of the challenges faced by the sector; and (d) an extended transition period, with early adoption allowed (e.g. NZ PBE FRS 48 provided a total of five-year lead time).
G: The notion of 'service'	<b>Working assumption:</b> On balance, exclude other aspects of performance, including 'fundraising' and 'management expense' performance (to help avoid project-scope creep and thereby ensure more timely completion of the project to meet important stakeholder needs).	(a) Contemplate work being undertaken to circumscribe the nature of 'service'; and (b) Acknowledge the range of other performance matters in which stakeholders are interested, and refer to work that is going on in those areas (including the IASB's Primary Financial Statements project) separately from the SPR project.
H: The next due process document	<b>No need to make a working assumption</b> at this stage. Instead, resolve the issue as the project progresses and more insights are gained.	(a) Identify the work needed to be undertaken before the question of the next due process document is to be considered by the Board, including the level of stakeholder engagement; and (b) Describe targeted outreach to inform an ultimate decision on the next due process document.

## Next steps

58. Consider Agenda Paper 4.3 of this meeting to decide on a suitable project baseline, having regard to the discussion and staff recommendations in this Paper.

## APPENDIX A: Arguments for and against the AASB being the body to specify a service performance reporting pronouncement

- A1. This Appendix provides further information about Pervasive Issue A on the role the AASB has in relation to service performance reporting and supplements paragraphs 6 and 7 of the body of this Paper.
- A2. Arguments against AASB being the body that addresses service performance reporting include:
- (a) those raised by individual respondents in commenting on AASB Exposure Draft ED 270 *Reporting Service Performance Information*. In particular, some stakeholders argued that ACNC, ASIC or another body is better placed than the AASB to establish service performance reporting principles for all or some groups of NFPs. For example:
    - (i) John Church questioned whether the AASB was the appropriate body to issue a Standard on this matter and commented that "the draft fails to establish ... [service performance reporting] ... is an accounting issue". He went on to comment that "The ACNC is the only body that is able to do this for charities possibly with some assistance from the AASB";
    - (ii) National Disability Services commented that the AASB is duplicating efforts of ACNC and thereby increasing the compliance burden through dual reporting;
    - (iii) Keith Reilly argued that "...The Corporations Act already requires appropriate disclosures for entities that are companies limited by guarantee ... : short and long term objectives; the strategy for achieving those objectives; its principal activities, how those activities assisted in achieving the entity's objectives and; how its performance is measured, including any key performance indicators..." and that he "believe[s] that such information provides a simple and appropriate framework for the smaller NFPs and allows NFPs to provide sufficient information where its constituents require, on service performance." He, and PKF, also raised the regulatory concern that the proposals would be contrary to the Government's policy of reducing unnecessary red tape and its broad de-regulatory program;
    - (iv) NFP Law pointed out the work already done by the Global Impact Investing Network (GIIN) on the Integrated Reports & Information System (IRIS), which claims to be the generally accepted system for measuring, managing, and optimising impact. NFP Law also commented that "Requiring the reporting of inputs, outcomes and impacts of charities and other NFPs is not consistent with the core business of the AASB. There is a growing and complex body of expertise around reporting on such matters<sup>2</sup> and the process for updating of accounting standards is not suited to the rapid pace of change in this field." (footnote 2 omitted); and
    - (v) a minority of constituents in particular did not support the application of the proposals to NFP in the public sector on the basis that there are existing service performance reporting requirements, such as the *Public Governance, Performance and Accountability Act 2013* (PGPA), the Queensland Government Performance Management Framework, and the Productivity Commission's Report on Government Services (RoGS). Furthermore, the Department of Premier and Cabinet Queensland expressed the view that existing reporting requirements for public sector NFPs provide an adequate level of service reporting information and an 'information gap' has not been identified to warrant adoption of the proposals in ED 270;

- (b) those raised by other individual respondents in commenting on ED 270 that service performance reporting should be left to market-driven forces. For example, in responding to ED 270:
  - (i) AICD said that: "... market-driven measures are the most appropriate mechanisms through which to improve NFP reporting more broadly and that regulatory intervention is not an appropriate tool through which to achieve this outcome. Further, a uniform regulatory requirement may prevent NFPs from exercising the flexibility required to tailor their reporting to the unique needs of their stakeholders, or from declining to prepare such reports entirely if it is not appropriate in their circumstances."; and
  - (ii) Council of Rural Research and Development Corporations said that: "Market forces and stakeholders' expectations drive the reporting, and the reporting contents are tailored to users upon specific request. Applying additional "one size fits all" mandatory reporting requirements are unnecessary"; and
  - (iii) there is some precedent for regulators other than accounting standard setters issuing pronouncements related to service performance reporting. They include ACNC's guidance on the disclosure of program information by charities in their annual information statements, and the Productivity Commission's Report on Government Services (RoGS) framework applicable to the public sector).

A3. Arguments for the AASB (in consultation with other relevant regulators) being the body that addresses service performance reporting include that:

- (a) after due process through Invitation to Comment ITC 46 *AASB Agenda Consultation 2022-2026* (see the [Feedback Statement](#)), the AASB decided to reactivate the Service Performance Reporting project;
- (b) as noted in paragraph BC2 of the Basis for Conclusions that accompanies ED 270, "Section 227 (1)(c) [of the *Australian Securities and Investments Commission Act 2001*] allows the AASB to "formulate accounting standards for other purposes" and it is under this function that the AASB has the mandate to develop an Australian Accounting Standard for reporting service performance information." Furthermore, page 5 of the AASB's [Corporate Plan 2022-2023](#) refers to "guidance for other purposes" and the Mission refers to "external reporting standards" in addition to "accounting standards" (as noted under The Purpose of the AASB and AUASB on page 11 of the Corporate Plan). The AASB's Strategic Objectives refer to "external reporting integral to financial reporting" (see strategic objective 5 on page 12 of the Corporate Plan). See also the one page [AASB Strategy](#). Furthermore, it is notable that in addition to issuing mandatory Accounting Standards addressing financial reporting issues, the AASB has issued a number of other pronouncements, referred to in paragraph 3.1 of the [AASB Due Process Framework for Setting Standards](#) as mandatory or non-mandatory Reporting Standards that address matters integral to financial reporting, and non-mandatory practice statements;<sup>1</sup>
- (c) the support shown for many aspects of ED 270, as evident in Agenda Paper 13.1 of the December 2016 AASB meeting, implies that many respondents support the view that the AASB is a proper and preferred body to issue a pronouncement on service performance reporting;
- (d) the AASB is an experienced standard setter with a robust due process and conceptual framework that can be applied, at least by analogy if not directly, to service performance reporting;

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<sup>1</sup> For example, the AASB has issued non-mandatory Reporting Standards and Interpretations that address matters integral to financial reporting (e.g. [Draft Appendix to the Tax Transparency Code](#)) and non-mandatory practice statements (e.g. the IASB's IFRS Practice Statement *Management Commentary* accompanied by [AASB Introductory Comments](#)).

- (e) there is precedent for accounting standard setters to involve themselves in service performance reporting or related matters, including the:
- (i) NZ accounting standard setter, in issuing NZ PBE FRS 48 *Service Performance Reporting*;
  - (ii) International Public Sector Accounting Standards Board (IPSASB), in issuing Recommended Practice Guide RPG 3 *Reporting Service Performance Information*;
  - (iii) International Accounting Standards Board (IASB), in addressing management commentary;<sup>2</sup> and
  - (iv) International Sustainability Standards Board (ISSB), in addressing sustainability reporting;
- (f) no other relevant standard-setter or other regulator has as wide a range of types of NFPs across the private and public sectors within its mandate as the AASB. Indeed, some recent reviews of related regulations or regulators have explicitly suggested the AASB should play a leading role in service performance reporting matters;<sup>3</sup> and
- (g) no other standard-setter or other regulator has stepped in to issue a comprehensive mandatory or voluntary pronouncement on service performance reporting since the original AASB project was effectively put on hold in 2016.

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2 AASB [introductory comments](#) relating to the IASB's IFRS Practice Statement *Management commentary* acknowledge other guidance on management commentary already existing in Australia, and that existing guidance might take precedence over the IFRS Practice Statement. Entities are still required to comply with all applicable laws and regulations.

3 For example:

- (a) the [Independent Review](#) into the operation of the *Public Governance, Performance and Accountability Act 2013 and Rule* (September 2018) recommended that "The Department of Finance should encourage the Australian Accounting Standards Board to develop a standard for performance reporting ..." (Recommendation 9, on page 4); and
- (b) the ACNC Legislative Review Panel (see page 59 of [Strengthening for Purpose: Australian Charities and Not-for-Profits Commission: Legislation Review 2018](#) suggests, albeit not as a formal recommendation, "... further work be undertaken by the ACNC, AASB and AUASB, in consultation with the sector and other stakeholders, to consider further changes to the financial reporting framework for registered entities.  
Those changes could include but are not limited to: ... potential reporting in relation to service/social performance ... Any proposed changes which would impose a further regulatory burden on registered entities will need to be carefully assessed having regard to the three principles of regulatory necessity, reflecting risk and proportionate regulation."

## APPENDIX B: Relationship of the Service Performance Reporting Project to the Private Sector NFP Financial Reporting Framework Project

- B1. This Appendix provides further details about Pervasive Issue C2 and supplements the discussion in paragraphs 19 and 20 of the body of this Paper. The Board decided at its [February 2021 meeting](#) not to include any service performance reporting proposals in the NFP Financial Reporting Framework consultation document. The Board reiterated that it considers reporting of service performance information useful to users of the financial statements of NFP private sector entities but acknowledged that complexities in developing proposals in this regard might disproportionately delay progress on the differential reporting framework.
- B2. The [Discussion Paper Development of Simplified Accounting Requirements \(Tier 3 Not-for-Profit Private Sector Entities\)](#), issued in September 2022 and open for comment until 23 March 2023 notes:

- "1.9 As part of determining the scope of its current project, the Board observed the significance of information specifying progress of a not-for-profit entity in working towards its broader aims and objectives to understand how efficiently and effectively management has discharged its responsibilities to use the entity's economic resources ('service performance reporting'). The Board noted that such information provides context for the entity's financial performance and helps users assess management's stewardship of its economic resources.
- 1.10 The Board does not intend to develop proposals for reporting service performance information as part of this project .... The Board considers such information highly relevant to users of a not-for-profit entity's financial statements but is conscious that developing proposals will likely delay the finalisation of any Tier 3 reporting requirements. The Board also observed that reporting service performance information is not a matter specific only to Tier 3 entities. A separate project on service performance reporting is not expected to commence until the second half of 2023.
- 1.11 In forming its view, the Board considered matters including:
- (a) the complexity of developing proposals on service performance information, noting data collection, interpretation, assurance and other concerns raised by stakeholders in its preliminary consultations on this project;
  - (b) the urgency for developing proposals, noting that entities may already be required to provide information about their service performance;
  - (c) whether the sufficiency of Tier 3 general purpose financial statements is intrinsically dependent on whether there is accompanying service performance information; and
  - (d) its agenda priorities, including this project's focus on smaller not-for-profit private sector entities and the relevance of service performance information to a broader set of entities.

More information is provided in Appendix E."

- B3. Paragraph E29 of the Appendix E specifically discusses service performance information and states:

"In reaching its preliminary view, the Board considered whether simplified financial statements could be viewed as providing adequate information to users of the financial statements for decision making in the absence of accompanying information about the entity's service performance. The Board is strongly of the view that information about a not-for-profit entity's service performance is critical to understanding how efficiently and effectively a not-for-profit private sector entity's management has discharged its responsibilities to use the entity's economic resources. Hence, the Board intends to continue to progress a separate project on developing requirements on service performance reporting for application by not-for-profit entities preparing general purpose financial statements that follow Australian Accounting Standards. The Board intends to continue to consider the role of performance reporting in meeting the needs of users of not-for-profit general purpose financial statements, and the Board may develop further proposals in the future. The outcome of that project may be that different service performance information is needed for each reporting tier."

## **APPENDIX C: Responses to ED 270 and ITC 46 on whether public sector and/or private sector NFPs should be subject to a service performance reporting pronouncement**

- C1. This Appendix provides further background to Pervasive Issue D and supplements the discussion in paragraphs 26 to 32 in the body of this Paper about whether the project should focus on private sector NFPs or public sector NFPs or both.

### **ED 270**

Specific matter for comment 2 of ED 270 asked whether the proposals should apply to NFPs in both the private and public sectors. The following is an extract from the relevant part of agenda paper 13.1 of the December 2016 meeting that summarises the responses:

#### "Support

- 16 The majority of constituents agreed the Standard should apply to NFP in both the public and private sector. Four constituents<sup>21</sup> agreed that NFP entities in both the private and public sector are similar in their funding and activities, and therefore their users have similar information needs.
- 17 While three constituents<sup>22</sup> agreed information on service performance would be useful for both public and private sectors, these constituents recommended the document is issued as a best practice guide and not a mandatory Standard.

#### Other Views

- 18 A minority of constituents did not support the application of the Standard to NFP in the public sector on the basis that there are existing reporting requirements for reporting service performance information, such as the Public Governance, Performance and Accountability (PGPA) Act 2013, the Queensland Government Performance Management Framework and the Report on Government Services (RoGS). These constituents propose the Standard apply to NFP in private sector only.
- 19 Furthermore, one constituent<sup>23</sup> expressed the existing reporting requirements for NFP in the public sector provide an adequate level of service reporting information and an "information gap" has not been identified to warrant the application of the Standard to public sector NFP entities.
- 20 One constituent<sup>24</sup> commented regulators of NFPs are in the best position to identify information gaps in reporting, and they should therefore determine whether the Standard is mandatory for the entities which they oversee. One constituent<sup>25</sup> recommended the AASB work with the regulators to determine which guidance would take precedence, to eliminate an overlap in reporting.
- 21 Two constituents<sup>26</sup> suggested the AASB work with regulators to determine overlap in existing legislative requirements and the Standard."

The associated footnotes are:

- 21 S1-Vision Australia, S18-KPMG, S20-Ernst & Young, S26-CPA Australia  
22 S6-CA, S22-YWCA, S16- Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC)  
23 S31-Department of the Premier and Cabinet Queensland  
24 S16-Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC)  
25 S27-PricewaterhouseCoopers  
26 S20-Ernst & Young, S27-PricewaterhouseCoopers

### **ITC 46**

- C2. Constituents also took the opportunity to comment on the issue in response to ITC 46 during the AASB's agenda consultation. [Agenda paper 3.2](#) of the May 2022 AASB meeting summarises the views expressed as:
- "... almost all public sector respondents support the Board adding service performance reporting to the work program. There are mixed views received from the NFP private sector respondents."
- C3. In providing further details of constituents' views, [Agenda paper 3.3](#) of the May 2022 AASB meeting notes the view expressed during roundtable feedback received on ITC 46 in relation to a Service Performance Reporting project:

- "17 A participant commented that the public sector seems to have some sort of framework in almost every jurisdiction, and each jurisdiction has its requirements. In some cases, the service performance reporting of public sector entities focuses on activities and outputs but not on outcomes. The participant is of the view that the Board should start the project focusing on the public sector before developing guidance for the NFP private sector.
- 18 One participant commented that it is not the AASB's role to develop service performance reporting requirements. The participant however suggested the Board consider developing guidance for Tier-1 NFP entities, and it should be up to the regulators such as ACNC to decide if such should be made mandatory or not."

C4. Agenda paper 3.2 goes on to say:

- "26 NFP public sector respondents noted inconsistencies in service performance disclosures between public sector entities. These respondents suggested the Board add this project to its work program to enhance the comparability of public sector entities' service performance reporting across states and territories. They rated this project as a medium-high priority, indicating that this is an important project for the public sector. Further, a public sector respondent suggested that the Board should focus this project on the public sector before developing guidance for the NFP private sector.
- 27 NFP private sector respondents provided mixed views. Some NFP private sector respondents who support the Board working on this project recommended that the Board:
- (a) consult key stakeholders and develop a voluntary framework or guidance to improve comparable and useful service performance reporting;
  - (b) consider having a similar framework as the New Zealand Accounting Standards Board (NZASB) model<sup>3</sup>— that is, issue guidance that establishes principles and high-level requirements for large NFP entities;
  - (c) collaborate with other regulators such as the ACNC and AUASB when developing guidance;
  - (d) focus on narrative information rather than quantified input, output and outcome disclosures;
  - (e) consider the outcome of the NFP reporting framework project when determining the different tiered levels of disclosures; and
  - (f) set this project as a medium-high priority project.
- 28 Some NFP private sector respondents do not support the Board adding this project to its work program and commented that:
- (a) further research and outreach should be conducted before adding this project to the work program, such as identifying user needs and determining what additional information is not currently provided to the ACNC;
  - (b) developing service performance reporting guidance could be helpful for large NFP private sector entities; however, the guidance should not be made mandatory;
  - (c) the sector generally has limited resources to implement and prepare service performance reports;
  - (d) the Board should not be developing any standard or guidance on service performance reporting as this is the role of other regulators such as the ACNC; and
  - (e) the Board should focus on other higher-priority projects, such as the NFP private sector reporting framework project.
- 29 Many respondents commented that service performance reporting is closely linked to sustainability reporting. Given the recent developments in sustainability reporting, respondents suggest the Board consider the service performance reporting project in tandem with sustainability reporting for the NFP private and public sectors."

Footnote 3 to paragraph 27(b) is the following hyperlink: <https://www.xrb.govt.nz/standards/accounting-standards/public-sector-standards/standards-list/pbe-frs-48/>

## APPENDIX D: Arguments for and against adopting an 'undue cost or effort' relief criterion in a service performance reporting pronouncement

- D1. This Appendix provides further consideration of the ideas presented in paragraph 34 of the body of this Paper (see Pervasive Issue E), which raised the prospect of adopting an alternative to differential reporting principles as a way of providing relief to certain eligible NFPs from service performance reporting requirements or guidance. The alternative of an 'undue cost or effort' relief criterion might be worth considering if sufficiently generic scalable principles of service performance reporting cannot be developed.
- D2. Arguments in favour of introducing an 'undue cost or effort' criterion into a service performance reporting pronouncement include that:
- (a) it is primarily targeted to the individual circumstances of an NFP and their users' needs rather than providing blanket relief to a broad cohort (e.g. Tiers 2 and 3) of NFPs; and
  - (b) there is some precedence for introducing 'undue cost or effort' type of pragmatic relief in accounting standards. In particular:
    - (i) AASB 9 *Financial Instruments* (e.g. paragraph 5.5.17(c) relating to measurement of expected credit losses) and AASB 17 *Insurance Contracts* (e.g. paragraph 33 relating to estimates of future cash flows), adopt the 'undue cost or effort' criterion to provide relief from the rigour otherwise required in making measurement estimates for recognition purposes. Even though those Standards do not provide 'undue cost or effort' relief from making a disclosure altogether (or from rigorous measurement for disclosure purposes), the service performance reporting project could consider broadening application of the 'undue cost or effort' criterion to the disclosure of service performance information;
    - (ii) given the similarities between the notions of 'undue cost or effort' and 'impractical', there is precedent that invoking 'impractical' relief gives rise to disclosure implications. For example, paragraph 29(e) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* states:

"When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose ... if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied."
    - (iii) several sections of the IASB's *IFRS for SMEs* contain exemptions in relation to certain requirements on the basis of 'undue cost or effort'. [IFRS for SMEs Update Issue 2012-4, April 2012](#), in its Q&A 2012/01 *IFRS for SMEs* General topics: Application of 'undue cost or effort' provides guidance on how 'undue cost or effort' should be applied for the purposes of the *IFRS for SMEs*, noting that:

"it is dependent on the SME's specific circumstances and on management's professional judgement in assessing the costs and benefits. Whether the amount of cost or effort is excessive (undue) necessarily requires consideration of how the economic decisions of the users of the financial statements could be affected by the availability of the information. Applying a requirement would result in 'undue cost or effort' because of either excessive cost ... or excessive endeavours by employees in comparison to the benefits that the users of the SME's financial statements would receive from having the information."

Paragraph 2.14D of the *IFRS for SMEs* includes disclosure requirements where the 'undue cost or effort' criterion is used by the entity.<sup>46</sup>

- D3. Arguments against introducing an 'undue cost or effort' relief criterion into a service performance reporting pronouncement include that:
- (a) as noted in, for example, paragraph 5.144 of AASB [Discussion Paper – Development of Simplified Accounting Requirements \(Tier 3 Not-for-Profit Private Sector Entities\)](#):
    - (i) the cost and effort imposed on an entity to assess whether the entity qualifies for relief could itself involve undue cost or effort; and
    - (ii) the assessment of 'undue cost or effort' could be interpreted differently by different entities, thus undermining the qualitative characteristic of comparability;
  - (b) related to (a)(i), the criterion could be particularly onerous for smaller (i.e. Tier 3) entities, given the limited capacity of those types of entities; and
  - (c) in NZ PBE FRS 48, despite not adopting differential reporting for Tiers 1 and 2, the NZ standard setter did not find it necessary to introduce undue cost or effort relief, presumably on the basis that the principles in PBE FRS 48 were regarded as sufficiently generic and scalable.

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<sup>46</sup> The concept is proposed to be retained in the September 2022 [Exposure Draft IFRS for SMEs Accounting Standard Third edition](#) (open for comment until 7 March 2023).

## **APPENDIX E: Responses to ED 270 on whether a service performance reporting pronouncement should be mandatory or voluntary**

E1. This Appendix provides further background to Pervasive Issue F and supplements the discussion in paragraphs 37 to 41 of the body of this Paper about whether the Service Performance Reporting project should aim to develop a mandatory or voluntary pronouncement. Specific matter for comment 9 of ED 270, which proposed a mandatory pronouncement, asked whether the proposals should be mandatory. The following is an extract from the relevant part of agenda paper 13.1 of the December 2016 meeting that summarises the responses:

### "Support

62 A minority of constituents support the mandatory application of service performance reporting to all not-for-profit entities. These constituents commented that the accountability and decision making qualities of service performance reporting would be an important addition to users of reports.

### Concerns and suggestions

63 The majority of constituents did not support the mandatory application of service performance reporting due to:

- (a) the burden on small entities who were lacking in resources would be too high.
- (b) the training, resources, assessment systems and set up costs of service performance reporting would far outweigh the benefits for users. Constituents noted that these costs would take away from the services that not-for-profits are trying to achieve.
- (c) the overlap of this standard with many pre-existing reporting requirements (as previously outlined in this document) would cause inefficiencies and double reporting.
- (d) the IPSASB Recommended Practice Guide 3 Reporting Service Performance Information is a best practice guideline and suggested that any pronouncement the AASB releases should follow the same character.
- (e) auditing and assurance of service performance information would be difficult due to a lack of Auditing and Assurance Standards regarding service performance information, as well as a lack of knowledge and experience in the area.
- (f) some not-for-profit entities may change their financial reporting framework from Tier 2 Reduce Disclosure to special purpose to overcome additional administrative burden of complying with the standard.<sup>75</sup>

64 Constituents made the following suggestions:

- (a) a minority of constituents suggested that the AASB only release a best practice guide, allowing entities, users or regulators who want to implement the principles of service performance reporting to do so.
- (b) some constituents who were particularly concerned with the burden on small and medium sized not-for-profits recommended that smaller entities should be granted reduced disclosure requirements or exemptions, as to not adversely affect these entities through the costs and resources required.
- (c) the AASB should take a phased implementation, so that studies can be conducted on the costs and benefits to not-for-profits and their users.<sup>76</sup>

### Feedback from roundtables

65 Whilst there were mixed views on whether a final pronouncement should be mandatory, the majority of participants were not in favour of a mandatory status.

- 66 Participants commented that if an entity was a grant recipient, that entity was already subject to detailed reporting back to the grantor (much of this reporting is not made public) and that further reporting requirements would be onerous.
- 67 Although ED 270 does not propose that service performance information is required to be audited, participants nevertheless commented that if any pronouncement had a mandatory status there would be concerns over the validity of the information provided and depending on where it was presented, for example, in a report accompanying the financial statements, it may still require oversight by the auditor which would increase compliance costs.
- 68 There were further concerns on how compliance with a standard would be communicated, because if Note 1 of the financial statements stated that the entity had complied with all accounting standards (including a standard on reporting service performance information) then this would also require the service performance information to be audited. Participants also commented that if the reporting requirements are mandatory but there was no audit requirement, entities may not comply.
- 69 Some participants that did not support a mandatory status suggested that the final pronouncement should become a best practice guide and that if users wanted the information, the market would compel the entities to report the information. It was also suggested that better information would be reported if it was issued as best practice guidance. It was further stated that it is the role of the regulator, not the standard-setter to set the status of any pronouncement of reporting service performance information.
- 70 Another suggestion was to make the a final pronouncement voluntary guidance and then undertake a post implementation review a few years after the guidance was issued to determine the adoption, this participant also commented that it would be important to get support from the ACNC on this.
- 71 Of those participants that supported a mandatory status some suggested that if the final pronouncement were only an overarching framework then that framework should be mandatory. Others suggested that if an entity was in receipt of government grants then final pronouncement should be mandatory and if grants were not received the market would determine whether an entity should provide service performance information. Similarly, another participant suggested that it should not be mandatory for entities already required to report service performance information under another framework.
- 72 Other comments in support of a mandatory status included that a voluntary status would defeat the purpose of the project, that is, to get all NFP entities reporting service performance information on at least some basis. It was also suggested that the information may be unreliable if it was not mandatory. It was suggested that the information provided under a non-mandatory basis could be likened to 'marketing'. However, other participants suggested that a mandatory status would result in poor data as entities might take a 'tick the box' approach and provide the least amount of information possible , further entities might 'cherry pick' service performance objectives to ensure a positive outcome.
- 73 It was suggested that the final pronouncement could be implemented on an 'if not why not' basis, much like the ASX Corporate Governance Principles and Recommendations, this idea gained some support from participants."

The associated footnotes are:

75 S4-Nexia Australia;

76 S16-Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC), S20-Ernst & Young