

29 April 2016

Ms Kris Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins St West Victoria 8007  
AUSTRALIA

Dear Ms Peach

**ED 270 Reporting Service Performance Information**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the above Exposure Draft. The views expressed in this submission represent those of all Australian members of ACAG.

Overall, ACAG supports the proposed Standard. There are a number of service performance reporting frameworks being applied in the Australian public sector which vary in their maturity and level of flexibility provided. ACAG supports the principles-based approach proposed as it supports the reporting of service performance information that is relevant and appropriate for differing circumstances.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



A T Whitfield PSM  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

## Specific Matters for Comment

- 1 Paragraph 20 proposes the principles for reporting service performance information. These principles state that an entity reports service performance information that:**
- a) is useful for accountability and decision-making purposes;**
  - b) shall be appropriate to the entity's service performance objectives;**
  - c) clearly shows the extent to which an entity has achieved its service performance objectives; and**
  - d) should enable users to assess the efficiency and effectiveness of the entity's service performance.**

**Do you agree with these principles? Why or why not?**

ACAG agrees with the principles outlined in paragraph 20. ACAG notes that there are already a number of frameworks in place in the public sector for reporting of service performance information. These frameworks differ and some are more advanced than others. The proposed principles are broad enough in nature to enable the various existing frameworks to continue to be applied.

ACAG does, however, suggest incorporating a fifth principle that information:

- e) is unbiased and capable of independent verification.**

For example, this principle emphasises the requirement for service performance information to be fair and reliable, and capable of independent review and verification if necessary. In addition, the proposed Standard could further emphasise the aim for a balanced set of performance indicators. In ACAG's view a full understanding of performance can only be obtained with a complete set of balanced performance measures, as appropriate to the circumstances. For example, an efficiency measure may show an entity has not achieved any productivity gain, however a complementary measure may show that the quality of the service has improved or the backlog has reduced.

It will be difficult to identify appropriate performance indicators, particularly efficiency indicators for some public sector entities given their nature and broad objectives (for example strategic matters where outputs relate to policy development). ACAG therefore supports the application of a principles based approach which provides flexibility in reporting on service performance.

ACAG notes that the basis for conclusions for IPSASB's Recommended Practice Guideline (RPG) 3 specifically states that the RPG's objective of providing information to users to assess efficiency and effectiveness does not mean that those two types of performance indicators must be presented. Further, BC35 (in RPG 3) clarifies that entities are not required to report all five types of performance indicators – inputs, outputs, outcomes, efficiency and effectiveness as it may not reflect an entity's actual service performance focus. ACAG agrees with the conclusions of IPSASB and suggest that this be clarified in the final Standard.

- 2 It is proposed that the [draft] Standard will be applicable to NFP entities in both the private and public sector. The performance of these entities cannot typically be evaluated from the financial statements alone. Accordingly, users of NFP entity reporting require further information for accountability and decision-making purposes.**

**Do you agree that it is appropriate that the [draft] Standard apply to NFP entities in both the private and public sectors? Why or why not?**

ACAG agrees that the proposed Standard is applicable to the NFP public sector. The fact that frameworks exist in most, but not all Australian public sectors means there is a demand for this information. The proposed Standard will help bring uniformity to the type, quantity and quality of information presented.

ACAG does not provide comment on whether the proposed Standard should be applied to the private sector.

- 3 The AASB discussed whether this [draft] Standard could be applied by for-profit entities at a future date. The Board noted that the principle objectives of NFP entities and for-profit entities are different and, therefore, user needs are potentially different. However, the Board is of the view that users of for-profit reporting may also benefit from for-profit entities reporting service performance information.**

**Do you agree that the application of this [draft] Standard could be extended in the future to include for-profit entities? Why or why not?**

As noted in BC17 the principal objectives of NFP entities and the needs of users in relation to those objectives are generally different from the principal objectives of for-profit entities.

ACAG recommends that a post-implementation review following implementation of the proposed Standard for NFP entities includes consideration of whether the proposed Standard could be applied to for-profit public sector entities. Experience in applying the proposed Standard would enable a better informed assessment to be made. ACAG does not provide comment on whether the proposed Standard should be applied to private NFP sector entities.

- 4 The AASB discussed whether the requirements of this [draft] Standard should apply to entities that prepare consolidated financial statements including whole-of-government (WoG) and the general government sector (GGS) financial statements. The Board decided that if the [draft] Standard did not apply to entities preparing consolidated financial statements, some important information might not be reported, particularly if a controlled entity was not required to apply this [draft] Standard. Further, it was noted that some governments prepare a strategic plan for the WoG (not just individual agencies). Therefore, this [draft] Standard could be applied in relation to those WoG plans.**

**Do you agree that this [draft] Standard should apply to all NFP entities that prepare consolidated general purpose financial statements (including WoG and GGS financial statements)? Why or why not?**

In general, ACAG believes that service performance information should be reported by all public sector NFP entities that prepare general purpose financial statements, including those that prepare consolidated financial statements.

While the information reported by a parent may not link directly to the controlled entities' own service performance information, this should not preclude reporting and should not necessarily be the basis of reporting. As it stands, the proposed Standard is not as clear as RPG 3 which states that 'unlike consolidated financial statements, which combine the finances of controlled entities, service performance information reported by a controlling entity is not usually a combination of the services reported by its controlled entities.' Rather, the performance indicators presented should be relevant to the controlling entity's own service performance objectives. The proposed Standard would benefit from such clarification.

ACAG agrees that the principles should also apply at the WoG level and GGS levels as this is where strategic direction is set. There may however be difficulty in applying the proposed Standard at these levels.

For example, it may be difficult to determine what outcomes are specifically linked to strategic objectives of a government. Further, as strategic priorities at the WoG level are highly dependent on policies of those in power at the time, objectives can change significantly and as such identifying appropriate performance indicators which provide accountability will be more difficult.

There may also be complexities where stated outputs involve a crossover of responsibilities between the Commonwealth and State.

**5 This [draft] Standard proposes that the reporting entity for which service performance information is reported shall be the same as that used for the entity's financial statements.**

**Do you agree with this proposal? Why or why not?**

In general, ACAG supports the proposal for the reporting entity to be the same as that used for financial statements because it provides a comprehensive picture of both the financial result and performance outcomes for the same period.

In some cases, performance indicators are published in Budget Papers prepared at a Ministerial Portfolio level. In effect, departments report performance indicators which relate to programs for which they pass on funding to another entity (e.g. a department includes a statutory authority's performance indicators, although that statutory authority is a separate reporting entity and is not consolidated by the department). However, where receivers of significant funding could be held responsible for achieving outputs and outcomes, such as where funding is provided to secure services, be it direct or via arrangements with other entities, relevant performance indicators should be presented.

**6 This [draft] Standard allows an entity to present its service performance information in:**

- a) the same report as the financial statements;**
- b) a separately issued report; or**

c) in a variety of different reports.

**Do you agree that this [draft] Standard should not specify the location of service performance information? Why or why not?**

**If you disagree with the approach proposed in this [draft] Standard how do you consider entities should present service performance information and why?**

ACAG does not support this approach of allowing the entity to choose the location for reporting of service performance information. The regulator (Parliament or Treasurer) should be able to determine where the information is to be reported to enable a consistent and predictable location for users to access it.

Where no such requirement exists ACAG suggest that it should appear in the same report as the financial statements.

ACAG notes that where service performance information is included in the same report as the financial statements' auditors will be required to perform certain procedures as specified in Australian Auditing Standard ASA 720 'The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report'. This may result in additional costs in some cases, in some jurisdictions.

**7 This [draft] Standard allows for an entity's service performance information to be reported for a different time period to that of the entity's financial statements.**

**Do you agree with this proposal? Why or why not?**

ACAG agrees that as a general principle service performance information should be prepared for the same time period as the financial statements.

ACAG agrees some indicators may need to be based on a different time period. In ACAG's view these should be reported in service performance information prepared as at the same date as the financial statements. Disclosure would be necessary to explain that they are for a different time period and the reasons why this reporting period was considered to better meet users' needs.

If entities have the option to use an altogether different reporting period for reporting service performance indicators, the requirement to direct users to the relevant financial information (that is, the financial statements) may not be particularly useful.

**8 The [draft] Standard includes defined terms in Appendix A. Do you agree that the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard? Why or why not?**

**Do you agree with these defined terms? Why or why not? Are there additional terms that should be defined in Appendix A to assist application of the [draft] Standard?**

ACAG provides the following comments on the defined terms:

*Service performance* – This definition is based on 'delivery of goods and/or services.' In ACAG's

view this overly emphasizes outputs and not the ‘performance’ (quality/quantity of goods and services provided). ACAG also suggests removing ‘with the intention of having a positive impact’ as it may cause confusion. What has a positive impact on some segments of society may have negative impacts on another.

**Inputs** - The definition is appropriate. Perhaps the explanation should also make clear that money is an important input, probably more so than labour. In the given example (refer AG30), if the total cost for the eleven staff was 80 per cent of the expected cost of the ten staff, then it would be more efficient. Guidance may also be needed around the importance of taking into account total cost (that is, including overheads etc.) when costing inputs.

**Outputs** - The definition is appropriate. Please see comments below on effectiveness’ broader definition.

**Effectiveness** –Effectiveness can also be the extent to which an entity achieves its planned objectives or outcomes regardless of the number of outputs produced. This appears to be acknowledged in the simple chart in the proposed Standard, but not clearly so in the text.

**Efficiency** – The definition is appropriate, but very simple. Simple may be good and desirable, but (to quote the Productivity Commission Report on Government Services (ROGS):

*“The concept of efficiency has a number of dimensions. Overall economic efficiency requires satisfaction of technical, allocative and dynamic efficiency:*

- *technical efficiency requires that goods and services be produced at the lowest possible cost*
- *allocative efficiency requires the production of the set of goods and services that consumers value most, from a given set of resources*
- *dynamic efficiency means that, over time, consumers are offered new and better products, and existing products at lower cost.”*

The proposed Standard focuses on technical (or productive) efficiency. Again to quote ROGS:

*“Technical efficiency indicators measure how well services use their resources (inputs) to produce outputs for the purpose of achieving desired outcomes. Government funding per unit of output delivered is a typical indicator of technical efficiency — for example, cost per annual curriculum hour for vocational education and training.”*

Standard on Assurance Engagements ASAE 3500 ‘Performance Engagements’ also focuses on technical efficiency, but just calls this efficiency. Further, it is relatively common for practitioners to refer to cost per unit of output as ‘efficiency’ and cost per unit of outcome as ‘cost-effectiveness’ even though this is an element of efficiency.

**9 The AASB’s view is that this [draft] Standard should be mandatory as it, in conjunction with an entity’s financial statements, provides useful information for users to assess the performance of NFPs in relation to an entity’s service performance objectives. Providing this information will further assist users for accountability and decision-making purposes.**

**Do you agree that this [draft] Standard should be mandatory for NFP entities? Why or why not?**

ACAG are supportive of the proposed Standard having mandatory application to NFP entities in the public sector to ensure a minimum level of reporting of this type of information is provided to users.

**10 It is proposed that this [draft] Standard will be applicable for annual reporting periods beginning on or after 1 July 2018. Early application will be permitted.**

**Do you agree with the proposed application date of 1 July 2018? Why or why not?**

For those jurisdictions who do not currently have specific reporting requirements, there will be significant effort required in implementing the proposed Standard. Given the requirement to report against published planned performance, suitable indicators will need to be determined well before 1 July 2018. Past experience has indicated that it can be difficult to define suitable efficiency and effectiveness indicators and ensure that balanced information is provided.

## General Matters for Comment

The AASB would particularly value comments on the following:

**11 Whether:**

- a) there are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAAP/GFS implications?**

ACAG is not aware of any such issues.

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

Overall, ACAG believes the proposals would result in reporting that would be useful to users because public sector NFPs are responsible for delivery of services in the absence of a competitive market in most cases. Hence, information about their service performance is of equal, if not more, importance than financial information.

- c) the proposals are in the best interests of the Australian economy?**

Overall, ACAG believes the proposals are in the best interests of the Australian economy because the public sector makes up approximately one third of that economy and NFPs are a large part of the public sector.

**12 Unless already provided in response to the matters for comment 1-10 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

As previously discussed application of the proposed Standard will increase the costs to preparers in development of indicators, preparation of information and audit fees where service performance information is included in the same report as the financial statements. Incremental costs will be dependent on the level of information currently provided which differs from state to state and entity to entity. Some public sector frameworks are more advanced than others. ACAG supports the proposal to allow flexibility in how and where the information is reported to minimise cost and duplication of information which may already be reported elsewhere.