



10 Shelley Street  
Sydney NSW 2000

P O Box H67  
Australia Square 1215  
Australia

ABN: 51 194 660 183  
Telephone: +61 2 9335 7000  
Facsimile: +61 2 9335 7001  
DX: 1056 Sydney  
www.kpmg.com.au

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

Our ref ED 270 Submission letter – KPMG  
comments

29 April 2016

Dear Kris

### **Submission - AASB ED 270 Reporting Service Performance Information**

We are pleased to have the opportunity to comment on ED 270 - *Reporting Service Performance Information (ED)*.

We support the Board's efforts in enhancing the transparency of reporting in the not-for profit (NFP) sector, and are supportive of the AASB providing guidance and a framework for the reporting of service performance information.

However we do have some concerns about the application of the specific requirements in the ED, which we discuss in the appendix to this letter. We also understand there is significant stakeholder opposition to the proposals as issued and are cognizant of the AASB's views about the length of time that might lapse between now and issuance of a standard, as well as the potential for significant reconsideration of existing proposals.

Also, we consider it may be of value investigating further whether existing frameworks for the disclosure of performance information like that included in Regulatory Guide 247: *Effective disclosure in an operating and financial review (RG 247)* and the Integrated Reporting <IR> principles of reporting holistically how an organisation performed against its strategic objectives and related strategies could be adapted and applied in the context of ED 270.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Ben Seumahu on (07) 5577 7464, or myself on (02) 9455 9120.

The appendix to this letter comments on the specific questions raises in the ED.

Yours sincerely

Kim Heng  
Partner

## Appendix

***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?***

As noted previously, whilst we are supportive of the AASB providing guiding principles and a framework for the reporting of service performance information, we wonder whether existing frameworks for the disclosure of performance information like that included in RG 247 or the existing <IR<sup>1</sup>> principles could be adapted and applied in the context of ED 270. We discuss this in more detail in our response to Question 3.

In response to this specific question, when looking at the principles contained in ED 270, overall, we believe that they lay down good guidelines for reporting service performance information by NFPs. However, we do understand that constituents have concerns about the application of some of these principles. Our comments are highlighted below:

- We note there are significant concerns from constituents regarding the proposal to require an entity to report on the efficiency and effectiveness of its service performance. Whilst we appreciate that measuring the efficiency and effectiveness of an entity's service performance in quantitative terms could be difficult or require additional resources, we see this as an issue separate to whether the principles are appropriate. The purpose of reporting service performance information is to assist users in assessing how well an entity has achieved against its service performance objectives. In our view, omitting information (whether it be quantitative or qualitative measures) of the efficiency and effectiveness of an entity's service performance reduces the usefulness of service performance reporting information.
- It is not clear to us what 'appropriate' means in the context of an entity's service performance objectives and suggest that an alternative term like 'relevant' should be included in place of 'appropriate'.

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<sup>1</sup> <IR> is a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

- 2** *It is proposed that the [draft] Standard will be applicable to NFP entities in both the private and public sectors. The performance of these entities cannot typically be evaluated from the financial statements alone. Accordingly, users on 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?*

We agree with the proposal that the [draft] Standard should apply to NFP entities in both the private and public sectors.

We acknowledge that the information needs of users of NFP financial statements are different from the information needs of users of for-profit financial statements as generation of profit is not the primary objective for NFPs.

Whilst there are slightly different focuses, within the NFP sector, the information needs of users of NFP financial statements are similar across the private and public sectors. In some instances, NFP entities in both the private and public sectors provide similar types of goods and services and compete for resources and funding. The users of financial statements of NFP entities in both the private sector and public sector require similar information to assess how well an entity has performed in meeting its objectives and whether the entity has effective stewardship and accountability to make decisions about whether or not to provide resources to the entity, which supports having a consistent performance framework across the NFP 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 the [draft] Standard could be extended in the future to include for-profit entities? Why or why not?*

At this point in time, we disagree with extending the application of the [draft] Standard to for-profit entities in the future.

Whilst we agree performance reporting is also relevant to for-profit entities, there are existing reporting frameworks (e.g. RG 247 and <IR>) that require for-profit entities to report similar information. Therefore, before extending the [draft] Standard to for-profit entities, we believe the Board should consider how the proposals in the [draft] Standard are aligned with the reporting requirements under existing frameworks. In fact, as we have previously noted, we believe that existing frameworks for reporting performance information in the for-profit sector might be adapted for purposes of reporting service performance information in the NFP sector.

RG 247 contains the guidance and principles regarding effective disclosure in an operating and financial review (OFR) that forms part of the annual report of listed entities. It is not clear how the principles in this proposal will be aligned with those in RG 247 if it is extended in the future to include for-profit entities. For example, RG 247 requires that an OFR should include a discussion of environmental and other sustainability risks where those risks could affect the entity's achievement of its financial performance or outcomes disclosed. However, information on sustainability and environmental issues is not included in this proposal as this type of performance assessment is considered not unique to NFP entities.

Furthermore, the information needs of users of for-profit financial statements are different from that of users of NFP financial statements. For example, the user of a for-profit entity financial report may seek to know how well the entity is being managed in generating returns for its investors, whilst the same question may be asked in an NFP scenario to establish how well the entity has performed to meet its objectives. Therefore, we believe that it will be difficult to meet the differential information needs of users of for-profit financial reports and users of NFP financial reports through a single set of principles or reporting framework, however closer alignment of the principles could open the door for the [draft] standard to be applied by the for-profit sector.

If the proposals in the ED were to be extended to the for-profit sector, we recommend the Board clarify whether companies that follow the <IR> framework would be considered to have complied with the requirements of this [draft] Standard.

- 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?*

We agree that the [draft] Standard should apply to all NFP entities that prepare consolidated general purpose financial statements (see our response to Question 3). However, if the AASB intends to apply the [draft] Standard to the WoG and GGS, we would recommend the inclusion of further guidance and examples to address how service performance information will be reported by such entities in order to ensure adequate useful information is included. The current standard could otherwise be interpreted as requiring a type of aggregation of performance reporting which may not provide a meaningful overview of the performance of the WoG and GGS.

- 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?*

We agree with the proposal that the reporting entity for which service performance information is reported should be the same as that used for its financial statements. However, similar to issues raised in relation to WoG and GGS under Question 4, we encourage the AASB to consider providing examples of the type of disclosures that might be expected where a consolidated group is considered a reporting entity in order to ensure adequate useful information is included, rather than just an aggregation of performance reporting information already separately provided by entities in the consolidated group.

We also note that in certain cases, NFP entities may act purely as fundraising agencies, for example as part of a global non-government organisation, with no operating activities. We recommend consideration be given as to what, if any performance reporting would be relevant for these entities and what considerations if any, would need to be made to the operations outside those of the fundraising agency reporting entity.

- 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?***

We agree with the proposal that the location of service performance information should not be specified in the [draft] Standard. This flexibility will allow the entities to choose where the service performance information is reported as some of the entities may already have prescribed location for reporting such information.

Although the exact location of service performance information need not be specified in the [draft] Standard, we believe that there should be a requirement to specify in the financial report the location of this information.

- 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?**

We believe entities will prefer to report service performance information for the same time period as its financial statements. However, we are aware there may be practical considerations which might require entities to provide service performance information on a different reporting period to their financial statements. For example, some entities might already be required to report service performance information under another framework to government or other stakeholders for a different time period to their financial statements. We therefore agree with the proposal to allow entities the option of providing service performance information on a different reporting period to their financial statements.

**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?*

Overall we agree with the defined terms in Appendix A of the [draft] Standard. However, we do have concerns about specific terminology as highlighted in our comments below:

- Goods and services may not be broad enough and it may not capture all the entities. For example, many NFP entities undertake activities or run programs to raise awareness about cancer which may not be captured by this terminology. We would propose alternatives such as ‘activities’ or ‘programs’.
- The use of the term ‘performance indicator’ should be reconsidered as it can be confused to mean key performance indicators. We would suggest an alternative term ‘service performance measures’.

We have not identified any additional terms that should be defined in Appendix A of the ED to assist the application of the [draft] Standard.

**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 NFP entities 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?*

Overall, we agree this [draft] Standard should be mandatory for NFP entities. Many NFP entities in the public sector are already subject to service performance reporting requirements of government and other regulators. Some private sector NFP entities voluntarily disclose service performance information in their reports to members. However, there is no Australian Accounting Standard that requires or prescribes service performance information to be reported. We believe the [draft] Standard can provide an overarching framework that sets out the concepts that underlie the reporting of service performance information. The [draft] Standard therefore will promote greater consistency of reporting within public sector NFP entities and also across public and private sector NFP entities.

While highlighting the differences between the for-profit and NFP sectors' needs, we note constituents have raised concerns about introducing onerous requirements for NFP entities that do not apply to equivalent for-profit entities (for example, a for-profit, unlisted subsidiary undertaking aged care services would not make the same disclosures as an equivalent NFP entity). Therefore we recommend that before the standard is issued, a separate project on performance reporting in the for-profit sector be undertaken which would address these potential inconsistencies.

We also understand from our participation in the roundtables and education sessions that it was not the AASB's intention for the application of this standard to be particularly onerous based on the AASB's view that NFP entities should either already have the information to report or are already reporting similar performance information. We therefore recommend the basis for conclusion to the Standard note the AASB's expectation in this regard. Especially, in relation to Tier 2 NFP entities who may not currently prepare such information for reporting purposes. As an alternative, reduced level of service performance reporting requirements could be considered for such entities.

***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?***

Application of the [draft] Standard is complex, requires a significant amount of judgement as to what service performance information is to be reported. Further based on constituent's feedback we understand that new disclosure requirements might require changes to systems and processes, accordingly we consider that a mandatory effective date of 1 July 2018 will not give preparers sufficient time to be able to appropriately apply the [draft] Standard. We would encourage the AASB to allow for an effective date of at least two years from the date of issuing the final standard.

***11 Whether***

- a) there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including GAAP/GFS implications?***

We are not aware of any regulatory or other issues that may affect the implementation of the proposals.

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

In our view, the proposals would result in reporting that would be useful to users, as it provides consistency on how service performance information is reported by NFP entities.



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

For the reasons noted above, we agree the proposals would be in the best interests of the Australian economy.

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

While we do not have an expectation of significant costs and time involved in transitioning to the requirements of this Standard, we are unable to comment on any estimated amounts.